

# STATE OF THE SECTOR REPORT 2022





# INTRODUCTION



The more things change, the more they stay the same. That is an apt description for the situation currently facing the building and construction sector. Falling confidence in the economy off the back of surging inflation and sharply rising interest rates looks like heralding an end to the long building and construction boom we have enjoyed.

The sector has been here before. For nigh on five decades, the industry has faced a succession of boom bust cycles, the last one we faced being the GFC. I am confident that we can do better this time. After the GFC there was a laissez faire response from government, one which took us seven years to fully recover from. What is different this time is a sector already working together, and with Government to ensure a different outcome. This time we also have a large amount of public building work being undertaken by government. Initiatives like the Accelerated Infrastructure Fund will also help.

Out of the wreckage of the GFC, also emerged a lot of innovations from large and small businesses, who did survive and then thrive, who took a long hard look at what they were doing and found smarter ways of working. We can learn from these businesses and their experience to apply these lessons this time.

Another cause for guarded optimism about this cycle is that while staff shortages are still prevalent, and the pull from Australia ever-present, anticipated workforce losses are paradoxically mitigated by weakening economic conditions through tight labour market conditions. The Apprenticeship Boost Scheme is also producing a strong pipeline of skilled tradesmen and women for the sector.

However, this doesn't mean we can ignore the staff we have. Quite the reverse. Attracting, and more importantly retaining staff, is paramount for getting through a bust cycle. It is time for all parts of our sector to move with the times and better understand the needs of those that work for us. We must do more to protect and support our people. Treating our people well is crucial if we want to ensure we can deliver the projects the country needs and keep our businesses and sector financially sustainable.

We also need to learn from our past mistakes regarding how we manage our cashflow in tough times. When cashflow is a challenge, winning through low pricing, can provide a quick relief. But it rarely pays off. Open conversations about risk, pricing it fairly and ensuring it is shared across all players, are needed. The current environment will

continue to be difficult – but talking openly with customers and suppliers about the challenges is the way through. This sector knows only too well that the race to the bottom is one that no one wins.

For me personally, the two key priorities are smoothing out the boom-bust cycles and haphazard housing policies that have stifled our ability to deliver consistently for the past 50 years. We have been through enough of these now as a sector and country to say enough is enough and do something about it. The answers are in our hands, we just need the courage and commitment to tackle the challenge head on. It is no longer good enough to know we have boom-bust cycles in this country, we must act now to shift them. That opportunity remains open to us, it's not too late, and discussions at this year's Constructive Forum give strong indications that process is now underway.

Finally, after 7 years as RMBA CEO I remain feeling positive and optimistic about the sector's future, despite challenging headwinds. Our sector can be one that is slow to move, we can get stuck in our ways of doing things. But I do believe that we have an opportunity to create meaningful change. I know that we can rise to the occasion because our people are resilient, and because they are invested in the very communities they help create for their country.

Me Mahi Tahi Tatou Mo Te Oranga O Te Katoa

**David Kelly,**  
CEO,  
Master Builders

# WHO WE SPOKE TO

In preparing this report we surveyed over 1,200 people from across the sector.

**690**

sector participants from the Master Builder membership and previous Constructive attendees.

**564**

homeowners who have completed building a new home or undertaking a significant renovation in the past three years.

**59%**

of new build homeowners had built for the first time. Fifty percent of those renovating had completed a significant renovation before.

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**We also spoke to sector leaders to understand their views in more detail. This included:**

**David Kelly,**  
CEO,  
Master Builders

**Sarah Walker,**  
Head of Advocacy and Strategy,  
Master Builders

**Peter Neven,**  
Chairman of Master Builders  
and Construction Consultant

**Jennifer Taylor,**  
Director,  
Bright Build

**Leonie Freeman,**  
CEO Property Council  
New Zealand

**Simon Barber,**  
Owner,  
Jennian Homes Wellington

**Teena Hale Pennington,**  
CEO, Te Kāhui Whaihanga  
New Zealand Institute of Architects

**Paul O'Brien,**  
General Manager - Commercial,  
Dominion Constructors Limited

**Blake Lepper,**  
GM Infrastructure Delivery,  
Te Waihanga - New Zealand  
Infrastructure Commission

# NAVIGATING THE CURRENT ENVIRONMENT

## The cycle of boom and bust

The cyclical nature of our sector is evident from this year's survey. Respondents reported falling confidence in the economy. This is not surprising as surging inflation and sharply rising interest rates look to be heralding an end to the long building and construction boom the sector has enjoyed for the past decade.

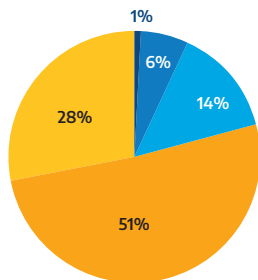
The survey found 79 percent of sector participants think the economy will deteriorate over the next 12 months, which represents a sharp deterioration from last year's survey, when only 35 percent thought economic conditions would worsen.

Homeowners are almost as pessimistic, with 68 percent predicting the economy will deteriorate in the next 12 months.

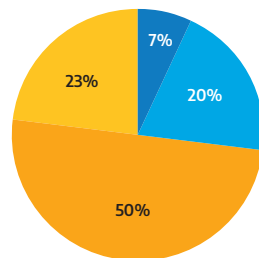
But there is a silver lining, in that only 31 percent of builders think their own business will be worse off, which can be read as a sign of resilience or, at the very least, guarded optimism. Order books are still strong for many, particularly in the renovation space, and for commercial and civic projects. This is very different from the previous downturn after the GFC, when all activity suddenly stopped. This time it is more of a slow decline, which provides time for businesses to adapt.

## Sector participant expectations:

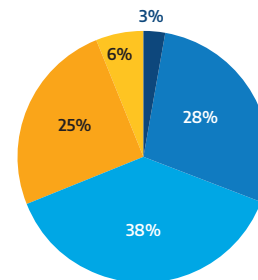
What is your expectation for the NZ economy in 12 months' time?



What are your expectations of the New Zealand building and construction sector in the next 12 months?



What is your expectation for your own business or organisation's situation in 12 months' time?



■ Substantially better ■ Moderately better ■ The same ■ Moderately worse ■ Substantially worse

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Things are different this time. For example, with the GFC there was a massive halt of so much development that everything just stopped. What we are seeing now is that there is a strong continuation from Kainga Ora in the public and social housing space. We are seeing a massive commitment to infrastructure development throughout the country. Whilst we are seeing on the private sector side some of the developers putting a halt on some of the residential work, there is plenty of other things happening which is positive.

Leonie Freeman,  
Property Council New Zealand

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In the house and land market, in the last couple of years we have sold a lot of houses off the plan. I see that with consumer confidence reduced compared to last year, consumers are wanting more finished products so that they can compare that finished product with the existing housing market. To deliver that finished product we need financing. That is where financial support and government support comes in. I quite like what KiwiBuild are doing at the moment with their new caps. You can apply for say 20, 40, 60 houses and they will underwrite to a certain level the financing of those builds. The government don't want to own those builds but they want to support us to put that new housing stock out on the market for consumers to buy.

Simon Barber,  
Jennian Homes Wellington





The crucial strategic question facing government and the sector remains how to maintain continuity of supply through down cycles.

It is important that we manage this downturn differently. During the last downturn, it took the sector seven years before its workforce recovered to pre-bust numbers. In that time our housing and infrastructure deficit reached crisis point.

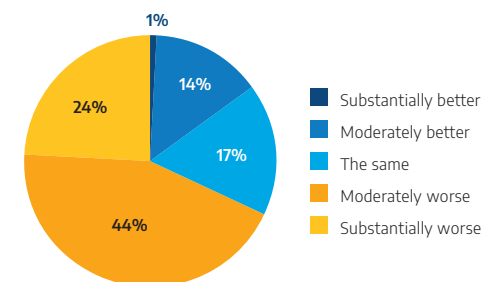
Panellists all felt we were unlikely to see a bust on a scale of the post-GFC decline. The extent of the decline following the first COVID lockdown was also less severe than first predicted back in 2020.

There may be more resilience in the sector, and the Government is already taking action with investment in infrastructure and social housing. The recent announcement to use KiwiBuild to underwrite housing developments is also a very positive step. The ongoing support for training is also a key component of the current response.

Government has started to take action, and as a sector we also need to be ready to make changes. Working together we can take collective action to ensure we continue to focus on building the homes and workplaces we need.

## Homeowner expectations:

What is your expectation for the NZ economy in 12 months' time?



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There are a lot of newer businesses that have started within the last decade, who haven't seen this before. They haven't got the scar tissue – and so potentially don't know what they don't know. There are a lot of businesses under the radar, they don't belong to Master Builders or any association and no one knows how they're getting on. That is where there is the greatest risk – and where there may be pain on an individual level, and for consumers.

David Kelly,  
Master Builders

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What we have now is a lot of disparate groups, acting in isolation. What we need is collective action, where we have a co-ordinated group that agrees on a vision and then as a group, coordinates the initiatives for everyone across the sector to keep us focused on achieving the goals. The Construction Sector Accord is a step in this vein. We need to use it to work together.

Leonie Freeman,  
Property Council New Zealand

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There is still a lot of work out there if people are sensible – but we are still seeing questionable terms of business. This may have an impact if you have a reduced balance sheet.

Paul O'Brien,  
Dominion Constructors Limited

## Short term pressures are being felt more acutely

Cost escalation, the supply chain disruption (in concert with product availability and increasing product substitution), and skill shortages were identified as the three most severe challenges facing the sector. While these were felt keenly last year, these challenges are significantly more accentuated in this year's survey, with cost escalation concerns rising 38 percentage points, the supply chain disruption by 24 points, and skilled labour shortages by 18 points.

These issues are having a major impact on the sector and on homeowners. Additional costs and project delays are the consequence of these pressures, and in turn these are causing a rise in the number of customer complaints and disputes. These issues were

confirmed by our further discussions – which are leading to more stress and the pressure on an already stretched sector.

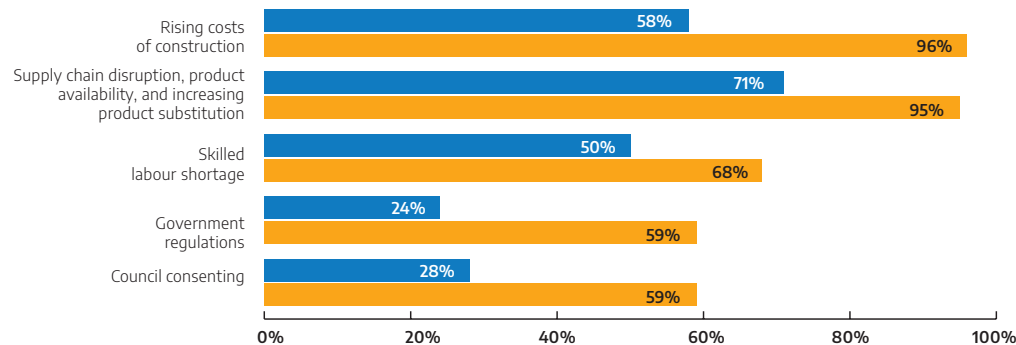
The feeling across the sector is that there will not be significant improvement anytime soon. While domestic constraints, such as GIB shortages, would likely resolve by the end of the year, international commodity prices are unlikely to stabilise, and labour constraints were likely to continue.

There is a feeling that over the past couple of years the sector has lost its customer focus. In the current environment this will no longer be adequate. There is a need for the sector to improve its customer service across all both commercial and residential sectors.

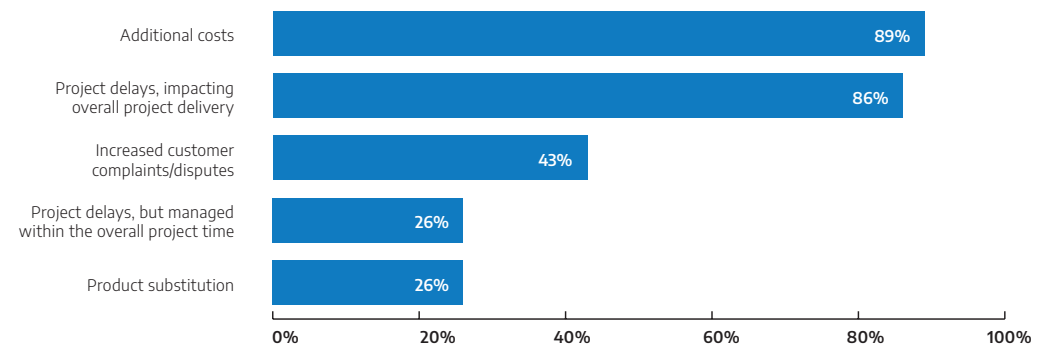
This starts at the outset of any project with open and transparent discussion on costs and timelines, the areas of pressure and concern. If these are discussed well at outset, they can be better managed as projects develop.

The continued disruption alongside the impending downturn is undoubtedly putting additional pressure on the sector. Cash flow issues were showing up the weaknesses inherent in many balance sheets across the sector. And while the disruption and delays were easier for the larger companies to manage, as they can sequence their projects and move resources (people and product) around sites, this is much more challenging for smaller businesses.

What are the most critical issues impacting your business?



Impacts of disruption



■ 2021 ■ 2022





Some in the sector are predicting consolidation, as businesses merge and others look to right-size their operations. While this may trigger a necessary correction, it could create additional uncertainty for the sector and for customers. Membership organisations across the sector have a critical role to play in this environment – supporting and training their members and informing their customers.

What is most concerning is the large number of sector participants that are not represented and not supported. These businesses will have no experience of managing through the downturn and this could create additional risk for consumers.

The fragmentation within the sector was one impediment to forward progress. The Construction Accord has a role to play here, bringing the sector

and Government together to find new approaches and solutions. The Accord can also help to educate government and officials about the complexities of the sector. Equally important was telling the sector's story to the public to take communities with them through a period of change.

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What we are more concerned about are the things that we can't see at this moment in time. We don't know what the Covid delays are going to do, we don't know how many weeks out we are going to be with our own workforce ill, our sub-contractors, and also, we have had the experience where we can't be onsite for three weeks due to a client and their family having Covid. So between illness, materials shortages, price escalation and consenting delays, there are whole raft of things out there to foot trip the business. We are trying to stay safe and secure and stick to our knitting.

Jennifer Taylor,  
Bright Build

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We have all been through Covid, we all had to keep our staff, and that's made a big dent on balance sheets. Some firms appear to be over committed and there is not the influx of overseas workers that we have had in the past.

Paul O'Brien,  
Dominion Constructors Limited

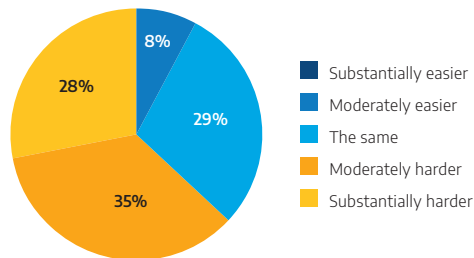
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Material shortages and price increases – if we look at the local market, I think this is likely to remedy itself by the end of the year, but the international commodity prices are going to be with us for some time.

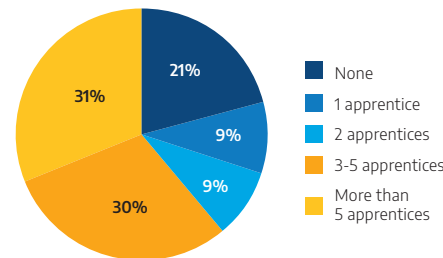
Peter Neven,  
Construction Consultant

# PEOPLE AND STAFFING

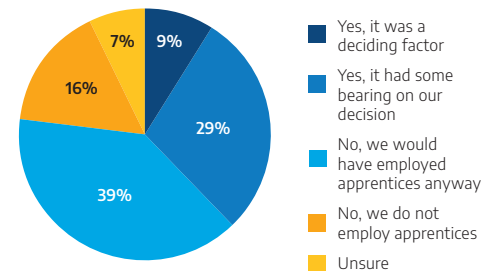
Compared to 12 months ago, what has been your experience in getting the staff you need?



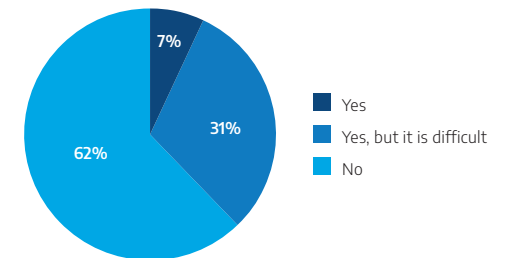
Do you currently employ apprentices, and if so, how many?



Has the Government Apprenticeship Boost initiative for employers helped you take on more apprentices?



Are immigration settings allowing you to bring in the skilled labour you need?



Finding skilled labour is an ongoing challenge for the sector, appearing in the top five issues every year since we began Constructive seven years ago.

Last year, 66 percent of survey respondents said it was harder to get the staff they needed than it was in the twelve months previous. Given this foundation, which had built up ever since surveys began for Constructive in 2016, it's concerning that 63 percent of this year's respondents said it was still hard to get skilled staff.

That is despite nearly two-thirds of builders employing apprentices, a 22-point increase from 2021. We also know from BCITO that figures show a 55 percent increase since 2020 in the number of employers training and apprentices in the system. While growing our pipeline of talent is critical, it will not alleviate the pressure being felt today, with a

lack of experience being felt by participants across all areas of the sector.

A key issue raised by our panel, was that the sector is not doing enough to develop and foster a pipeline of skilled workers. The onus is on the sector to provide more training and clear career pathways to those who join the sector, so they can more easily navigate the many pathways available to develop fulfilling careers.

Getting this right in the current environment is important. While the residential buildings sector may slow and look to reduce worker numbers, the commercial sector is still actively looking for talent. While the trade skills are transferable, it will be up to leaders in commercial to also provide the same supportive environment and strong career prospects as the residential sector.

The sector's skilled labour shortages are a global issue, meaning we are competing for talent on an international stage. Australia is a strong pull for many – higher wages and lower cost of living are increasingly attractive for young New Zealanders who have felt tied to home for the last two years during Covid.

Immigration settings are also playing a role here. Workers exiting the sector are not being replaced under post-2020 immigration settings. Of those in the sector looking to bring skilled labour into the country, only 9 percent say the current settings are allowing them to bring in the labour they need. Responses felt the current immigration settings are too complex, cumbersome, and time-consuming to navigate.



## Growth in diversity

There is a silver lining to the skills problems. It has bolstered the sector's embrace of diversity, perhaps more out of necessity than design. Those who have experienced improved diversity have also seen the benefits, with the majority citing the value of differing perspectives adding skills, and others referencing it as providing a bigger talent pool to choose from. Only 16 percent fail to see any benefits from diversity.

The key question for the sector, is as we bring in more people from different backgrounds, what do we need to do to retain them and ensure we provide them with rewarding career opportunities. This is particularly the case for Māori and Pasifika, who are joining the sector in good numbers. The opportunity is to nurture them through into more leadership roles.



We like to build relationships with our team and that starts from college. We have relationships with high schools in our local area and we use the Gateway Programme to give people experience on-site.

Jennifer Taylor,  
Bright Build



I think the thing that we are lacking in New Zealand is the ability to move through the industry through various phases. People that might be a carpenter, might go on to be a foreman and might want to be a project manager on a major project. We need to have better forms of training and access to that training so that as the matrixes develop there is a clear pathway to move through if that is what they would like to do.

Peter Neven,  
Construction Consultant



We need to look upstream at the consultants and the way we procure, we haven't got that right and there is a lack of knowledge and experience within the client base. There is an opportunity to share the knowledge we have around.

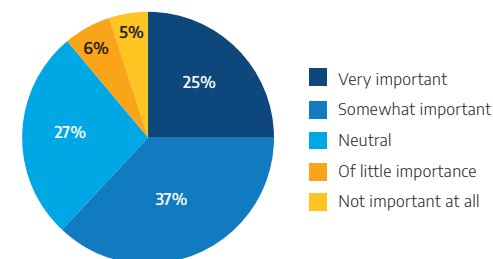
Teena Hale Pennington,  
Te Kāhui Whaihanga New Zealand Institute of Architects



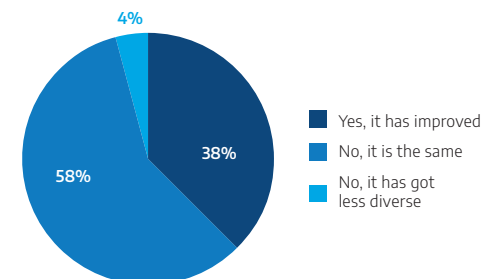
New Zealand is not being marketed overseas as a good place to come at the moment.

Paul O'Brien,  
Dominion Constructors Limited

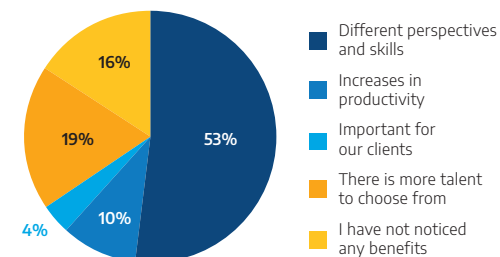
How important is diversity to your organisation?



Has the diversity of your organisation improved over the past 12 months?



What are the benefits you have noticed from improved diversity?

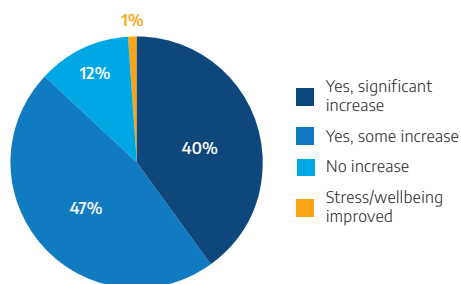


## Mental wellbeing

As seen in last year's State of the Sector survey, the mental wellbeing of the sector's workforce remains an overwhelming concern. Eighty-nine percent of respondents noticed a rise in stress or mental health issues in their business over the last 12 months. This was on top of an already stressed sector, as seen in last year's result, in which 88 percent of people said that stress and mental wellbeing was an issue in their business.

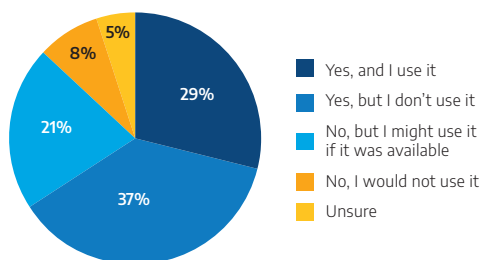
The impacts of Covid are being felt – and on top of this the unprecedented products disruption, cost increases and lack of skilled workers is adding enormous pressure onto the sector. People are stretched and tired, and this is an environment that can lead to poor decision making.

Have you noticed an increase in stress or mental wellbeing issues in your business over the past 12 months?



Less than a third of those surveyed did not have a wellbeing plan in place, but 73 percent of that cohort said they would use it if one was there. This is an opportunity for workplaces to show leadership. However, there is also a need to look at the quality of those plans and how they are being implemented. The level of mental stress in the industry, would indicate that there is a lot more to do in this area. This is both an opportunity and imperative for those businesses, as we know from Mates in Construction's research the sector has among the worst mental health issues facing any sector in the country. Meaningful change in this area will require concerted and ongoing effort from across the sector.

Does your business have a plan or programme in place to support you if you were dealing with stress or mental wellbeing issues?



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Our people are reporting being tired. Since March 2020, they've experienced continuous and disruptive change which has taken a toll on their health, wellbeing and their business. Some lost all their work over night, and then had to scramble to win new work. Others have experienced challenges in finding the necessary talent, which has seen a 'market premium' being paid on some key roles.

Teena Hale Pennington,  
Te Kāhui Whaihanga New Zealand  
Institute of Architects

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What other industry do you have people ringing you in the weekends to talk about their projects – we do go that extra mile for our homeowners. And right now that is taking a toll, what with the additional time we are spending finding product, re-scheduling projects due to material delays and illness, and communicating this with nervous clients.

Jennifer Taylor,  
Bright Build

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A lot of this is life stress – the team that works with me, they are stressed with the cost of living, the cost of buying a home, getting appointments – and this is all magnified with the disruption and delays in the industry.

Simon Barber,  
Jennian Homes Wellington



# REGULATORY AND CLIMATE CHANGE

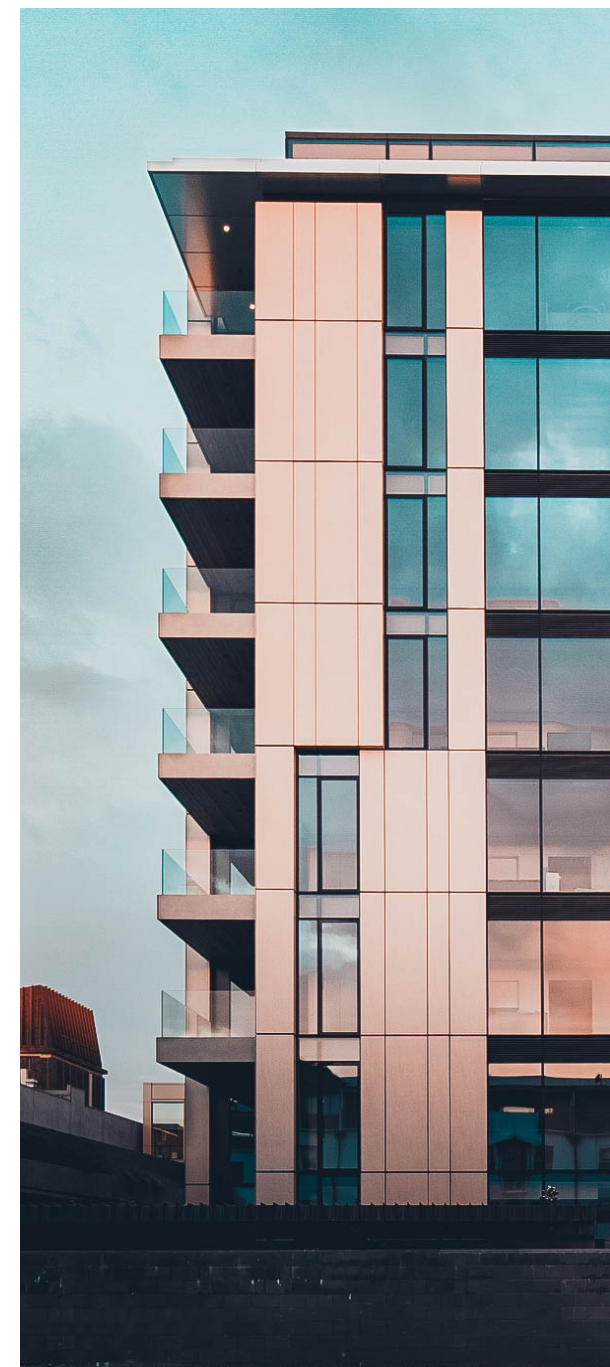
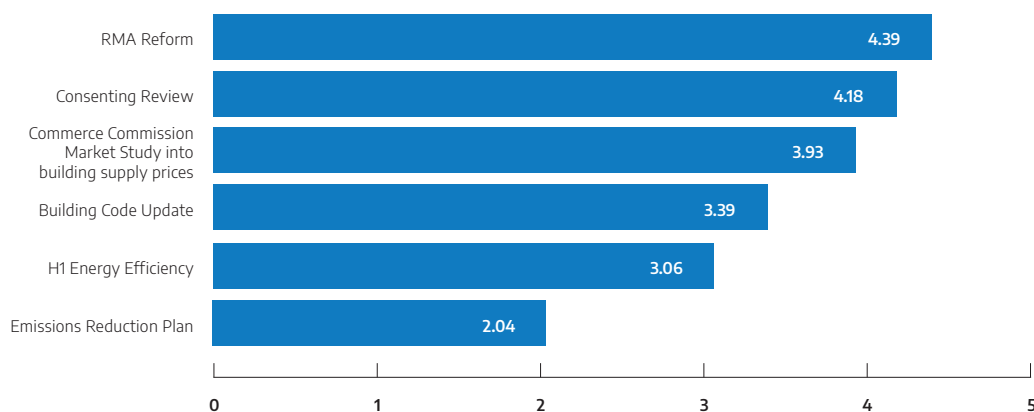
The sector is looking for Government and officials to step up. Across the panel there was a feeling that building and construction did not gain a strong political focus until there was a crisis. The sector is vital to New Zealand's economy. Building and construction is a significant contributor to the national economy so its performance matters. It's currently the third largest contributor to GDP, some \$20 billion per annum and sustaining over 540,000 jobs. With 95 percent of building firms employing 10 staff or less, our workforce is deeply embedded in communities right across our cities and regions. The sector is responsible for building our homes, schools, and hospitals. It is a sector that matters to all New Zealanders.



The RMA changes are so massive across the whole property sector that I think it is critical that we make every effort to ensure that once it comes into being, it will actually work. Sometimes the policy and regulatory environment ends up being a barrier to achieving the outcomes that we want, rather than an enabler. I encourage the public sector involved in policy and regulation to think about not just the bit of work that they are doing – writing policy – but actually that their job is finished when we solve our housing issues in New Zealand.

Leonie Freeman,  
Property Council New Zealand

Government regulatory reforms with the greatest impact on the sector





The Government is highly active on the regulatory front. RMA reforms and the Consenting Review are seen as the most impactful by the sector, closely followed by the Commerce Commission Market Study into building supplies, Building Code Update, H1 Energy Efficiency and Emissions Reduction.

The RMA has been a problem for the sector for a long-time and most would agree reform is necessary. However, there is concern that we need to get this right. Those who have been in the sector

long enough to remember the first-time round will note that it took many years of legal proceedings to test and reach precedents with which the sector could move forward. Last year's RMA Amendment Act provides a further example. This was focused on allowing greater medium density but included a classification of wetlands that halted developments across the country. This took over a year to resolve, we simply haven't time for these unintended consequences. The sector is calling for robust

trials and user-cases to be put through any new requirements to resolve these issues prior to the legislation coming into law.

There was a role for Government officials to provide more robust guidance to the sector. Areas like climate and medium density require new approaches, which will need to be led by Government. This will require more than just a regulatory focus, but an educational focus.

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One of the problems has been we continually get a new Minister of Building and Construction. It is a very complex industry. As an industry we need to lobby to ensure we have someone who understands the sector, has an interest in it, and is ready to treat it with the importance it deserves given its importance to New Zealand.

Peter Neven,  
Construction Consultant

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The regulator has a legislative mandate to educate and promote, it is up to the sector to find ways to work better with them to do of this. This is a key vital part of the sector, particularly as we look for new solutions around building quality medium density homes, and for wider issues such as building healthy homes and more sustainable buildings.

Sarah Walker,  
Master Builders



## Consenting provides opportunity for efficiencies and costs savings

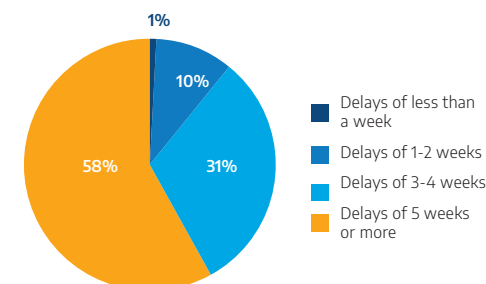
Looking at consenting, 83 percent of respondents were experiencing consenting delays, which was consistent with last year's findings. Substantial delays are being felt across all stages of the process – resource consent, building consents, building inspection and Code of Compliance consent. While there is recognition that the councils are stretched with record demand, there is also a frustration that these issues are still to be addressed.

Both sector participants and homeowners are reporting substantial costs increases and disruption caused by unresponsive consenting processes.

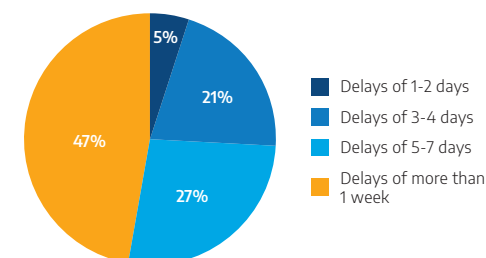
Despite councils focusing more on consenting processes, only 16 percent of builders reported any improvements in council consenting processes. Developers were far more damning, with a paltry three percent noticing improvement.

For builders, 58 percent experienced consenting delays of most commonly five weeks or more. Inspection delays were most commonly delayed by more than a week, and Code of Compliance Certificates by 3-4 weeks.

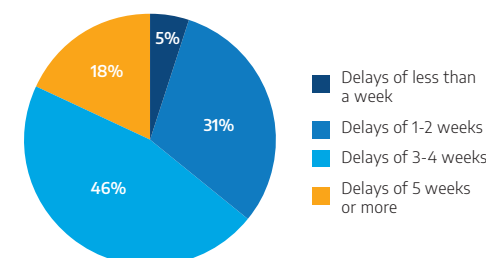
If consenting delays are impacting your business, what are the most common delay times?



If inspection delays are impacting your business, what are the most common delay times?



If Code of Compliance Certificate delays are impacting your business, what are the most common delay times?



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There are some consenting challenges and that is probably down to volume and capacity within local councils. I have to have some sympathy for them, they are absolutely run off their feet. But there are cleverer ways we can deal with things. Every project has to have its own consent for obvious reasons, but we need to look, as a sector, at ways we can standardise things so that we speed up the process and you don't have to have the same thing in front of people time and time again.

Paul O'Brien,  
Dominion Constructors Limited

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With any standardisation comes cost efficiencies. The franchise builders have very good architectural plans for a range of houses. They are well designed. There should be a standard consenting process for those. The only things that you have to deal with regionally are wind loading, coastal considerations, geotechnical differences and thermal issues within regions – but apart from that, the standard base house should be able to be a standard consent that applies for all districts.

Peter Neven,  
Construction Consultant

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From a consenting point of view, the companies that I am involved with probably submitted one hundred consents last year. Every one of those consents was treated slightly differently, which still bugs me.

Simon Barber,  
Jennian Homes Wellington

Consenting delays are creating additional cost to both homeowner and builder, the greatest impact is often being felt by the builder as they are having to deal with further logistical issues due to the delays.

A common issue is that builders are having to deal with multiple consenting authorities. Eighty-one percent of respondents are dealing with more than

one BCA, with the majority of respondents dealing with between 3 and 5 BCAs. This adds substantial complexity. While the sector is very pleased to see consenting on the Government, the sector is calling for some quick wins to take place while the wider review is underway.



I think there are some solutions to the consenting, but we are not communicating them in a clear and articulate way.

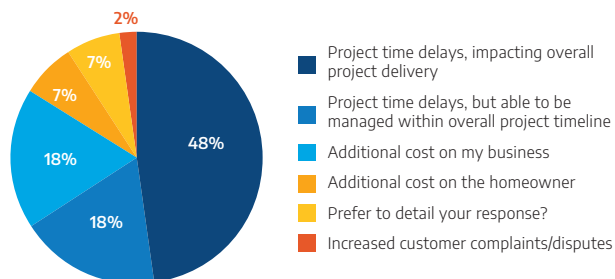
David Kelly,  
Master Builders



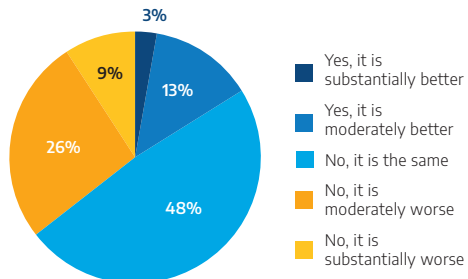
The consenting process is not only adding time, but also causing the loss of staff. This is due to the significant delays in issuing resource and building consents. The normal sequencing of work across an office is not happening, which means practices can't afford to have underutilised people on the team.

Teena Hale Pennington,  
Te Kāhui Whaihanga New Zealand Institute of Architects

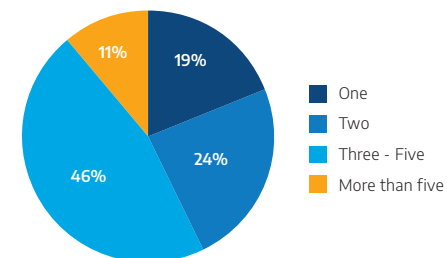
What impact are consenting delays having on your business?



Have you seen any improvement in inspection processes over the past 12 months?



How many different consenting authorities have you dealt with over the past 12 months?



## Emissions reduction

Turning to climate change and the decarbonisation of the economy, the government's climate change reform agenda took further steps in the past 12 months, notably with the release of the first Emissions Reduction Plan as well as progressing its waste strategy.

An IPSOS poll released in July revealed that New Zealanders led the world in their concerns for the environment. But perceptions about the idea of climate change – who doesn't support efforts to improve the environment – are different when a climate-related question incorporates other dimensions.

The State of the Sector survey provides a good example of this. The majority of respondents prioritised some sustainability initiatives within their businesses. Waste management practices scored highest, being prioritised by 78 percent of respondents, with prioritising sustainable products next at 53 percent, while 35 percent were prioritising carbon reduction in their business.

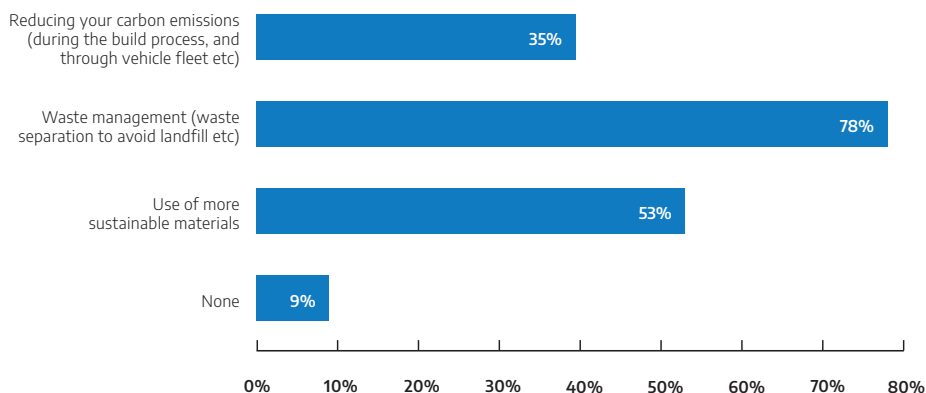
But when asked specifically whether respondents are taking action within their business to address climate change and net zero by 2050, 58 percent said they have plans in place or will have during the next 12 months. Thirty four percent said it was not a priority right now and 8 percent said they did not see it ever being a priority.



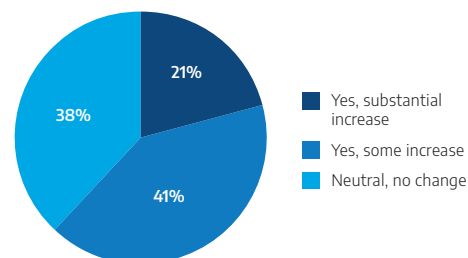
There is certainly a big mind shift that is going to be needed to get people to realise that it may cost a little more upfront, but the benefits are long term. In terms of health, some of the research has shown that for every dollar that is put into warming and keeping homes healthy, it benefits the health system by \$5.

Jennifer Taylor,  
Bright Build

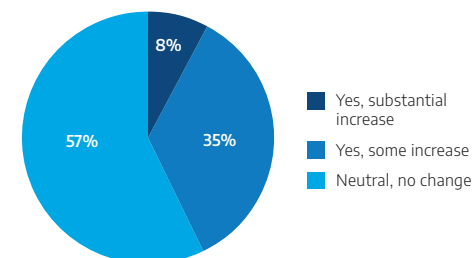
### Which sustainability initiatives are you already prioritising within your organisation?



### Have you seen an increase in public sector clients requesting sustainability requirements within the contract/procurement process over the past 12 months?



### Have you seen an increase in private sector clients requesting sustainability requirements within the contract/procurement process over the past 12 months?





Cost is the most significant barrier to addressing climate change provided by sector respondents (79 percent). The second factor was client demand, at 47 percent. When asked if there had been an increase in clients demanding a greater focus on sustainability, the public sectors is leading the way with 62 percent seeing an increase, as opposed to only 43 percent from the private sector.

This finding was reinforced when homeowners were asked if they were willing to pay a little more for a more sustainable build. Thirty percent of respondents were unaware of sustainable products, 11 percent weren't willing to pay any increase,

and 25 percent were willing to pay only between 1-10 percent more. There is also a lack of information about what is available. Homeowners mostly relied upon their builders for information about sustainable products, with only 22 percent undertaking their own research and 9 percent learning from their architect.

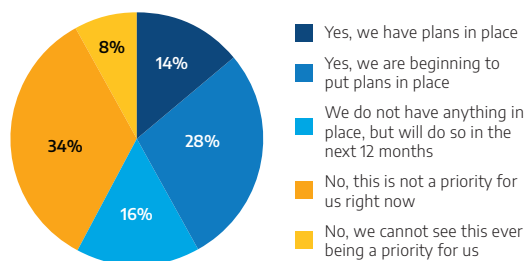
There is a need for a more coordinated sector response to taking this issue. There are calls for the sector to work together to share knowledge regarding best practice approaches and products, as this will be the key to bringing the costs down to a more sustainable level.



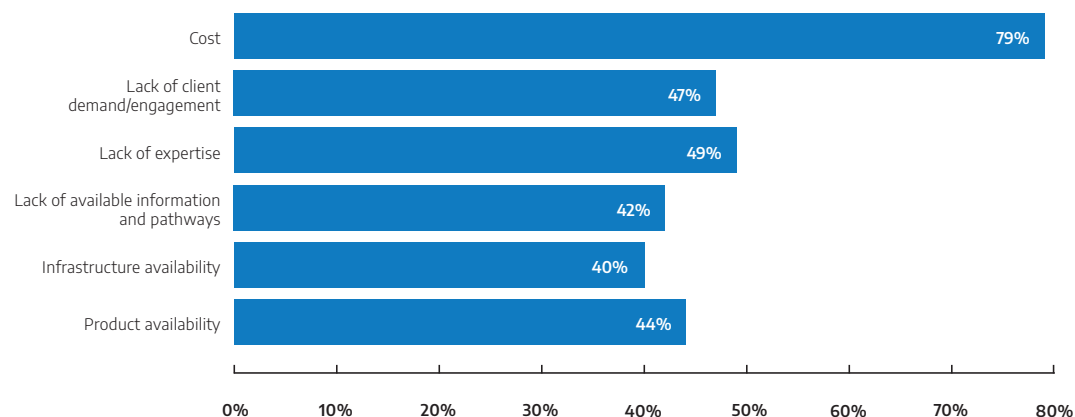
Climate change is going to be a challenging issue. It is such a huge priority and pressure, but there are not a lot of meaningful solutions. That is a massive political pressure, but then you also have affordability and buildability smacking up against it.

Sarah Walker,  
Master Builders

Are you taking action within your business to address climate change and net carbon zero 2050?



What do you see as the key barriers to addressing climate change and net carbon zero 2050 for your business? Tick all that are relevant.





# PROCUREMENT AND RISK MANAGEMENT

Procurement and risk management have been a recurring theme at Constructive ever since the first forum in 2016. Government and the Construction Sector Accord has had a strong focus on procurement practice for the past three years – but with mixed results, as the survey indicated.

Although the disruption and products and skills shortages have assumed greater saliency this year,

procurement still ranked a close sixth in the critical issues facing those engaged in commercial construction.

In the survey, 46 percent of respondents felt procurement practices had got worse in the past 12 months, 35 percent reported no change, while only 19 percent perceived improvement.

Turning to liability provisions, 35 percent of respondents felt that risk and liability provisions had also got worse in the last year, 37 percent thought there had been no change, while 28 percent noticed improvement. In light of the concerted effort made via the Accord, this is a concerning result, but maybe one that could have been expected given changing conditions.

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While the Ministers are behind the Accord in terms of different procurement models based on attributes and price, rather than just lower tender, disseminating that down to the government departments, still gets lost a little.

Peter Neven,  
Construction Consultant

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There is inadvertently still a default to lowest cost conforming bid. Even where we put non-price metrics in to tender requirements, they are often subjective.

Paul O'Brien,  
Dominion Constructors Limited

“

From what I hear there are big improvements with many of the construction partners working with Kainga Ora. They have developed a new partnership model, they now sign-up contracts for up to five years and construction companies are given certainty of a large number of projects over a number of years. So that is quite a different approach that it used to be, where you use to have to get a contract for every project.

Leonie Freeman,  
Property Council New Zealand

It is all too easy to revert to open tenders focused mainly on cost in the face of cost escalation and uncertainty. But this is an area where, as a sector, we must work together. The race to the bottom is one that no one wins.

Across the panel there was a feeling that the Accord had made a difference. Particularly in getting ministers to recognise the need for Government procurement to move away from being solely focused on cost, to also consider other attributes. The challenge was in disseminating this down to officials. Government leadership was required.

Construction procurement is increasingly complex, and very different from many other procurement practices. The lack of skills and expertise felt

across the sector is also prevalent in procurement. Add to this, that procurement of infrastructure is simply not core business for the agencies doing the procurement. The Ministry of Education or Corrections Department are naturally more interested in education and prisons than procurement.

A key question is whether procurement in government departments would be better managed through a centralised procurement entity across the public sector to build up some procurement expertise rather than have it spread across agencies. What would help now would be an entity separate from procurement processes that could monitor and discern best practice.



We could improve immensely and overnight if we had a commitment from the key agencies that have signed the Construction Sector Accord to use the standard forms of contract and to allocate risk fairly and transparently. This is an opportunity for each agency to effect change and partner with industry.

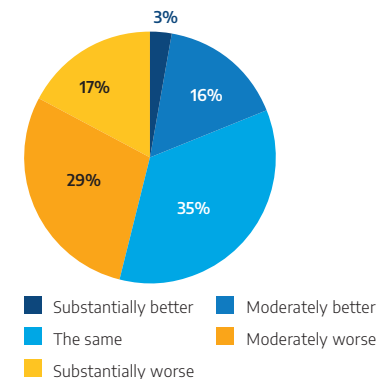
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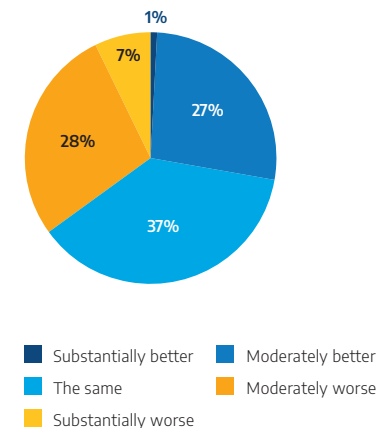
The people leading Govt agencies are not interested in construction per se. So, procurement is not important to them – it is a support function to their key outcome, so we have a battle to explain why procurement is key. One of the questions is should it continue to sit within the agency or should it be grouped together in some way. So, we get some expertise.

David Kelly,  
Master Builders

How do you rate procurement practice changes over the last 12 months?



How do you rate risk and liability provision changes in contracts over the last 12 months?





“

A really important thing we'd encourage as the Infrastructure Commission is to make the most of opportunities to discuss procurement practices and the behaviours they drive. Like using post-tender debriefs to help people really understand how the scoring played out in practice and whether or not the clients were getting what they intended. I think that's going to help people learn from what they've been doing and make improvements in the future. We see there's a real intention to do things better, but without those feedback loops people don't know how the processes they're designing play out in practice.

Blake Lepper,  
Te Waihanga • New Zealand Infrastructure Commission

## Review of Government procurement

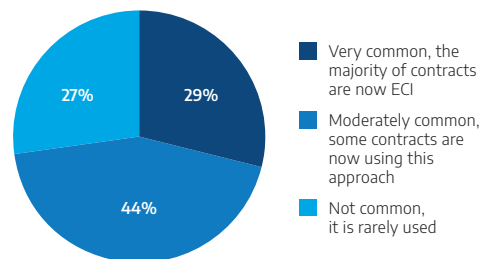
A recent review of the Government procurement practice by the Infrastructure Commission, found that despite these best intentions departments regressed back to lowest tender because they did not understand how the evaluation frameworks play out. The scoring system tended to group in the middle despite the best intentions. Non-price attributes were often undervalued or downgraded through a lack of understanding. This was an area the sector could both more actively engage with officials to discuss the scores and engage with government over the framework's operation.

## Private sector procurement and the rise of early contractor involvement

There were some green shoots seen, particularly in private sector procurement with an increase in early contractor involvement contracts. Seventy-one percent of respondents reported a rise in ECI practice, where the contractor is engaged early in the design process so they can advise on the best approaches for the build and help to reduce the risks from the outset.

Private clients are also more likely to have a senior property manager within the team to advise on specialist procurement and the ongoing management. The private sector is also less likely to focus on the build cost in isolation and are more open to considering the whole of the life costs associated with the building.

How common are Early Contractor Involvement (ECI) contracts in your experience?





## Building more efficiently

There are real efficiencies to be gained across the sector in bringing in more standardisation – not only to procurement itself but to what we build. We currently design and build each project differently. Yet there are opportunities to design standardised best practice structures for core

infrastructure, such as hospitals, schools and prisons. A well designed structure can then be refitted several times through its lifecycle to accommodate changes needs. This provides a key opportunity for the sector in New Zealand.

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Another really important thing for getting value over the long term is to make sure we design buildings that endure, yet can also adapt to future generations’ needs. So thinking about how our structural solution can be very enduring and how perhaps our fitout - the way we use our spaces within it - can be designed to be easily refreshed. This will make sure today’s investments also benefit generations to come.

Blake Lepper,  
Te Waihanga • New Zealand Infrastructure Commission

“

We need to take a holistic view right across the life cycle of the building, and that can include the ability to strip out and refit to accommodate changing approaches and technology. You can design your build to do that, and to take into account the operating cost as well as the build cost. This is likely to achieve a better and more efficient outcome in the longer term.

Paul O’Brien,  
Dominion Constructors Limited





## PRESSURE ON HOMEOWNERS

New Zealanders and their household budgets are under a lot of pressure from inflation and the resulting high cost of living. Their job security is more secure given historically low unemployment and demand for skills across sectors in the economy, but the threat of a recession this year or next still provides uncertainty and economic insecurity for many Kiwis. And many are physically and mentally exhausted from their experiences through the Covid disruption.

This provides a challenging backdrop for those New Zealanders wanting to build a home. For those who have had a home built during the disruption, building delays due to supply constraints as well as cost escalation, and inevitable builder illnesses, have made for stressed homeowners.

### **Media narrative creates additional stress**

That stress has been exacerbated by constant media reports about building delays and cost escalation. The survey found 72 percent of respondents reporting they were impacted by stress created by these news stories (with 24 percent impacted a lot).

This media context also obviously places equal pressure on builders. Communication between homeowners and their builder becomes even more important in this environment – and is often a key differentiator on the most successful projects – across all price brackets.

### **Communication is key to a successful project**

In these circumstances, it is pleasing that 73 percent of respondents felt the communication with their builder was good (37 percent thought excellent). But there is undoubtedly room for improvement here, especially as communication is prized highly by homeowners. Reputational and other risks escalate for builders if their communication with homeowners is perceived as inadequate.



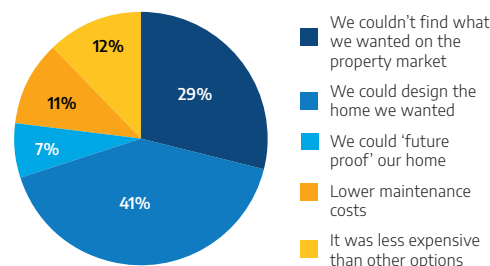


## Why build new?

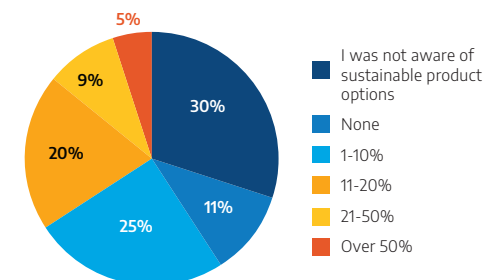
The most common reason respondents gave for building a new home was planning the style design of the build (41 percent). That was the most common reason given for building a new home, “to design the home we wanted”, although “we couldn’t find what we wanted on the property market” (29 percent), and “it being cheaper to build than to buy” (12 percent), also featured.

There is a paradox that sees, on the one hand, homeowners’ cultural expectation for bespoke design solutions, and on the other, efficiencies and costs containment through greater standardisation, the key to the sector making productivity gains. As with the commercial sector there are real efficiencies to be gained in bringing more standardisation into what we build. This is something the volume build sector does very well – introducing standard structural build features and allowing individualisation of the interior fitout.

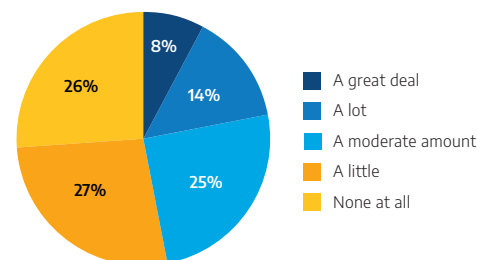
What was the main reason you decided to build a new home?



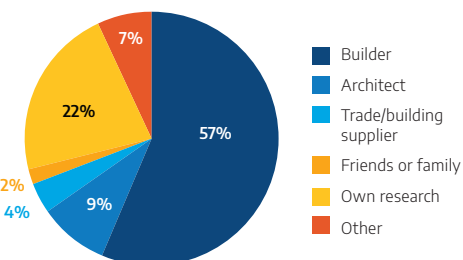
When considering building, how much of a premium were you willing to pay for a sustainable build (e.g. using products that are recyclable, environmentally friendly, designed with water and energy savings in mind, using technologies to lower energy use, etc.)?



Did you do any research into using environmentally friendly products or processes before or during the build process?



What was the primary source of information you used to decide on building products and materials for your build?



Those surveyed also recognised the benefit of a building guarantee. A guarantee which covers you if your builder has a change of circumstances and is no longer in business provides the best peace of mind. Ninety-three percent of homeowners surveyed stated having a Master Build Guarantee in place brought them peace of mind, and 71 percent would recommend it to someone they knew. At typically less than half a percent of the build price, this makes good business sense.

While the pressures facing homeowners and builders are unlikely to alleviate given the high inflationary environment New Zealand is experiencing, the survey shows there is still lot to be positive about.

It is up to all of us to challenge the narrative and ensure we do not talk ourselves into a deeper downturn. We should not underestimate our sector's resilience. Nearly half of our homeowners would recommend building in the next 12 months – despite the current challenges. And our panel agree. When if now was a good time to build the response was clear. The best time to build was yesterday, but second best is now.



What we need in our housing delivery in the next year or two, is to continue to keep some volume in the market. We don't want to retreat to bespoke stock at higher prices which is not going to solve the issue – New Zealand needs more houses.

Simon Barber,  
Jennian Homes Wellington



My advice to anyone thinking of building at the moment, both in residential or government, the whole lot, the prices will not go down. I think that the best time to build is right now.

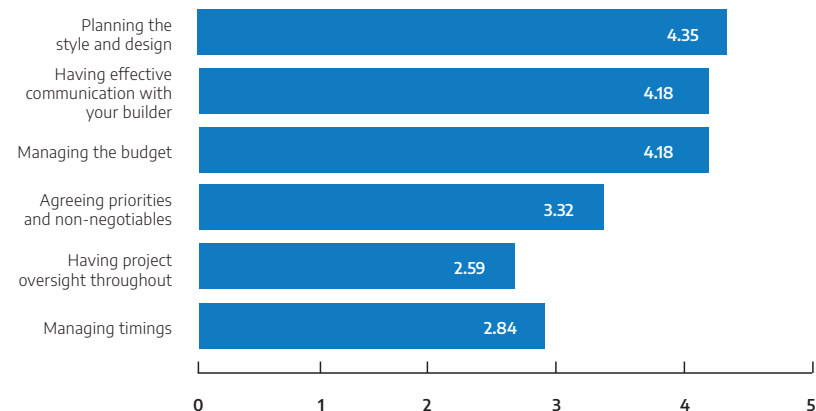
Peter Neven,  
Construction Consultant



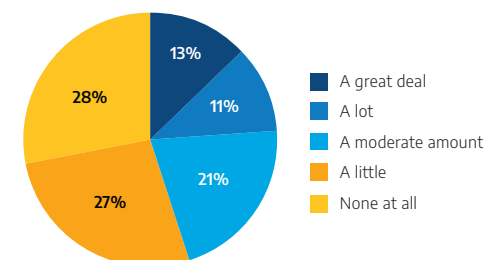
It needs to be about New Zealand, not us, and sometimes we get that wrong. People aren't worried about the problems of the building sector, they are worried about whether we are building enough homes. We need to articulate why it is good for New Zealand, not why it is good for the sector and then we are more likely to get interest and action.

David Kelly,  
Master Builders

#### How would you rank the following aspects of the build process in terms of importance?



#### Did news and media articles about building delays and cost escalations negatively impact stress levels during the build process?



#### Would you recommend building or renovating to others in the next 12 months?

