

COST ESCALATION IN COMMERCIAL CONSTRUCTION

The Vertical Construction Leaders Group (VCLG) represents New Zealand's leading construction companies. This group is focused on building the communities, schools, hospitals and workplaces all New Zealanders interact with. This is a sector increasingly under pressure from multiple issues. We surveyed the VCLG to understand the key issues facing New Zealand's commercial constructors.

GROWING COMPLEXITY OF PROJECTS

The commercial construction sector delivers across a full spectrum of projects from smaller short-term projects to complex projects running over more than two years. Most companies are working on more than 10 projects at once.

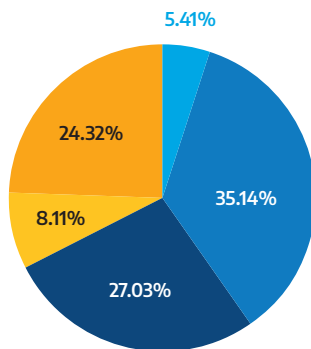
42%

of commercial builders are managing projects costing over \$100 million, running over at least a 24-month completion period

These projects are growing in complexity – with high staffing numbers and multiple subtrades to coordinate.

How many team members are involved in this project (total staff in management and on-site)?

- Under 10 people
- 10-25 people
- 26-50 people
- 51-100 people
- More than 100 people

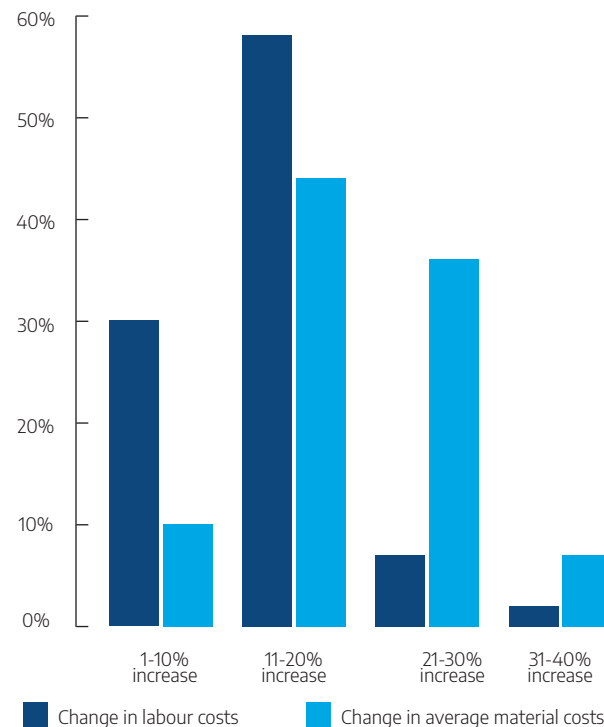


73%

of commercial builders deal with upwards of 30 subtrades on their biggest project

LABOUR AND MATERIALS ARE BOTH MORE EXPENSIVE

Cost escalation is an increasing issue impacting the sector's ability to deliver. 100% of those surveyed are experiencing cost increases for both labour and products:



CHRONIC SKILLS SHORTAGE CONTINUES

The cost of labour continues to increase. Skilled labour shortages have been an issue for the sector for many years. While apprentice numbers are up, it is the more experienced workers that are currently lacking, and companies are finding it more difficult to bring in skills from overseas. As a result, professional management costs continue to rise.

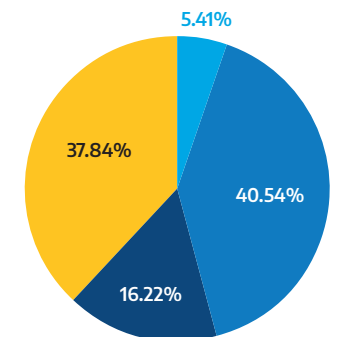
OVER

50%

of commercial builders have had an increase in professional management costs of 11 - 20%

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

- Moderately Easier
- Same
- Moderately Harder
- Substantially Harder

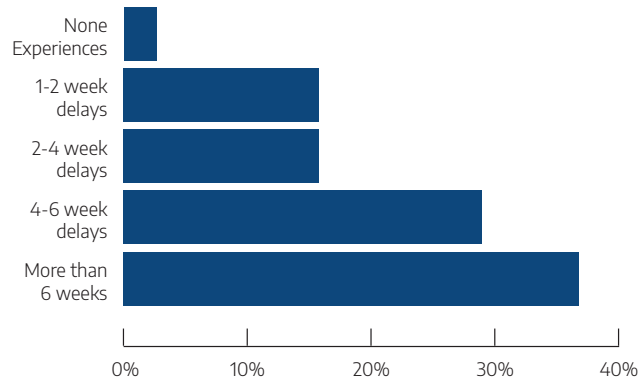


LABOUR AND MATERIALS ARE BOTH MORE EXPENSIVE

PRODUCT DELAYS IMPACTING PRODUCTIVITY

Product availability and shipping delays are also exacerbating the issues. Product availability can create significant knock-on effects and delays across the many subtrades involved.

What is the current quantum of delays experienced?



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SHIPPING AND DISTRIBUTION IS IMPACTING ALL PROJECTS, ON TOP OF MATERIAL COST INCREASES

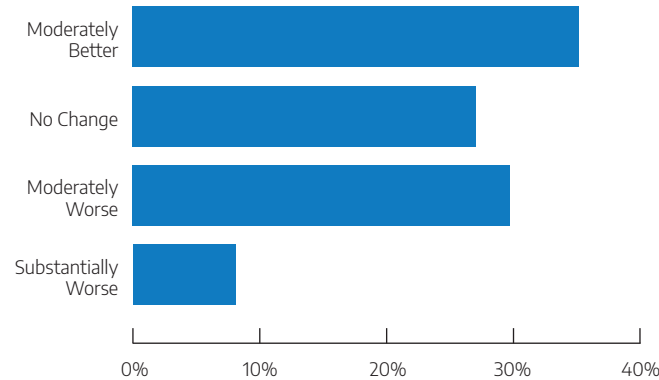
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PRODUCTIVITY IS UNDER PRESSURE AT THE OUTSET – WITH PROCUREMENT PROCESSES A MAJOR DRAG ON THE SECTOR

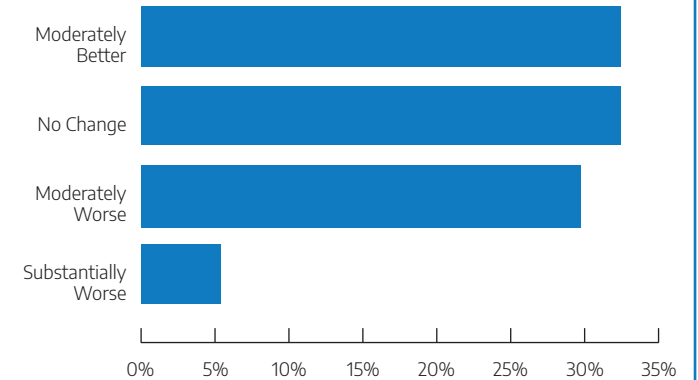
PROCUREMENT IS INCREASINGLY COMPLEX AND UNPRODUCTIVE

Procurement has been a major focus for the sector since the establishment of the Construction Sector Accord, yet many are struggling to see any improvement. The reset of the Accord is an opportunity.

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



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



Procurement processes are adding unnecessary cost and delay to already complex projects, particularly with Government.

46% of commercial builders believe that procurement administration has gotten worse over the last 4 years

26%* of the workforce in commercial building is involved in administration and procurement

*Average percentage among participant answers

DESIGN QUALITY AND CONSENTING ALSO IMPACTING PRODUCTIVITY

The sector continues to face challenges across all areas – design quality and consenting were pulled out as key focus areas.

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HAVING TO DESIGN SPECIFIC ITEMS AS WE BUILD IS CAUSING MAJOR DELAYS. THERE HAS BEEN A CLEAR SHIFT WITH THE QUALITY OF DESIGN INFORMATION OVER THE LAST 2 YEARS.

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COUNCIL DELAYS IN CONSENTING IS A MAJOR CONTRIBUTOR TO TIME AND COST INCREASES

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