

17 February 2012

Steven Bailey
Inquiry Director,
Housing Affordability Inquiry
New Zealand Productivity Commission

Dear Steven,

Thank you for the opportunity to respond to your draft report on Housing Affordability.

The report is very comprehensive - which we commend the Commission for – and (from the CIC's perspective) the key issues for the construction industry are:

- How is affordability measured?
- What are the key performance indicators which can be measured and after actions taken remeasured to monitor the initial position of affordability?

It is notable that in many Western nations research has reported productivity of the construction industry and as a consequence affordability is low or not improving. A variety of reasons have been proffered to explain the issue. However, all have also reported a dearth of hard data which can be used to properly monitor the true state of the issues, other than simply reporting housing prices. Affordability, productivity, industry sustainability and quality are all complex and inter-related matters, and un-locking them is not an easy matter.

CIC comments on the recommendations in the draft report are as follows.

Industry Structure

Despite being fragmented the CIC notes that common among all industry practitioners is a desire to build quality buildings. While fragmentation does have some negative consequences, the industry is highly competitive and, should accordingly be delivering cost optimal outcomes (under normal market theory) – there must, therefore, be other structural barriers leading to the reported low house affordability.

The very large number of SME and micro businesses has both benefits and disadvantages, and recent regulation changes, especially the use of licensed building practitioners for restricted building work, may affect the number of 1 and 2 person SMEs – given the need for 'CPD maintenance' to retain licensing, such that it discourages practitioners from continuing their licence. One benefit of the current industry model is that it allows project management companies to upscale their workforce as needed, without the overheads that full time employed staff can impose. One of the core issues for the CIC is the lack of investment in higher levels of training for the basic tradesman/professional. The DBH led Productivity Taskforce report would indicate an hourglass skills gap problem in our industry with trade and initial training levels about right, and the higher (professional) end being adequate, but significant gaps exist at the construction manager and supervisor levels.

Economy Boom Bust

The CIC contends that the effect of the boom bust economy is the largest single challenge to increasing sector productivity to in-turn improve house affordability. The construction industry is affected to a greater degree and for longer in these cycles, and the CIC welcomes all initiatives to smooth these cycles through:

- long term planning and investment, especially by central and local government as the most significant clients; and
- through responsive immigration policies.

The CIC welcomes the formation of the National Infrastructure Unit with a focus on \$10million (+) projects, but we also wish to emphasize that government 'minor works' also account for approximately 30% of total construction within NZ.

Additionally, positive net migration correlates directly to new housing activity. Having said that, there is a need for a more strategic approach to urban planning policies affecting the willingness (or not) for home ownership encouragement of medium density, communal or apartment living.

Access to Information

The CIC has long held concerns about – and made numerous submissions on – the adoption of a Performance Based Building Code needing to be supported/underpinned by a robust framework of Standards and information, accessible by all in the industry.

Performance-based building systems are prevalent in many developed countries, and member countries of the Inter-Jurisdictional Regulatory Collaboration Committee (IRCC) have evolved the best practice design of these systems. NZ has fully developed all aspects of such a system, but the user-pays funding model used for Standards development and access is a barrier to practitioner access and has flow-through impacts on sector knowledge, productivity and eventually affordability. The CIC submits that the funding model needs to change to allow for prioritization of and funding for Standards development (eg assessed on maximum 'public good', access and maintenance, based on need), and to allow for free website access to Standards in the same way as the Act and Code are free. These measures will enable improved knowledge in the sector and thereby underpinning industry productivity.

Sustainable Construction

CIC members believe it is important in many projects for clients to consider whole-of-life costing, not only initial construction cost. Such costing affects the definition of and information on what "affordable" means by the Commission in the context of the report. The report focuses on the land and build cost for an owner; however, if the operating costs, impact and disposal of construction are included a different base will be established.

Operating costs of a property become more important in a renting situation than the higher capital cost of some sustainable features that an owner must face. A more 'affordable' house which is cold, damp, with poor acoustic properties and high maintenance costs in a medium density setting is not a desirable outcome – not for the tenant/owner, and not for New Zealand Inc.

Bureaucratic Cost & Regulatory Impacts

The effect on housing cost and contribution to non-affordability is difficult to assess and measure due to commercial sensitivity. The regulatory impact statement for the introduction of Building Act 2004 reported the cost to be less than a 2% total increase, noting that the Act the addressed councils and consenting, skills and product areas. The CIC is not aware of any "back costing" or testing of the actual impact – but certainly anecdotal evidence from the industry is that the "bureaucracy cost" of increased regulatory levels in the industry (imposed nationally or applied locally in response to leaky buildings) has risen significantly.

A level of bureaucracy is important for standardisation and uniformity of construction activities, regulation of unsatisfactory activities, and to obtain real building data.

Unfortunately, there are a large number of authorities all acting as consent authorities, with varying expertise and resources and a multitude of different in-house IT systems – none of which supports uniformity or consistency in decisions on the application of the building consent and RMA requirements, nor do they support appropriate reporting.

If moves are made to reduce the number of authorities responsible for applying building controls it is recommended that a parallel process apply also to RMA issues, as the separation of decision makers will create new difficulties. Whether a single authority is considered suitable or not a single IT supporting system will provide significant benefits for measuring activity, decisions and feedback. CIC members suggest that there would be benefits for other authorities and the industry at large to be informed of a design, construction or other issue or solution that exists in a single BCA; however, with BCAs currently averse to risk because of the insurance and the current 'joint and several' liability regime, this sharing of information is most unlikely and risky. The industry needs to have a robust and open 'feed back loop' which fosters continuous improvement right through the system.

Building Products

Some CIC members do not agree with the draft report regarding the possibly being issues with the pricing of building products. They would argue that it is a highly competitive sector, and the CIC is aware that they have made individual submissions to the Commission.

However, we understand there are approximately 45,000 product lines used in the industry, with very few having any form of product appraisal or certification. Some members are regularly dealing with product and/or product assurance forgery, but the CIC suspects that large numbers of products are totally reliant on unproven manufacturer claims. This situation creates, firstly, a disincentive for the manufacturers of high quality, assured products, and secondly, a market with high potential for eventual failure of products. The Building Act 2004 puts the onus on the builder to use products that are fit for purpose, but frequently the fitness for purpose test is made with the benefit of experience with a product or hindsight, usually as a result of failure.

A more workable and robust product assurance framework is commended by the CIC.

Conclusion

CIC members welcome being involved in further discussion to support the final Commission report.

A handwritten signature in black ink, appearing to read 'Pieter Burghout', with a long horizontal flourish extending to the right.

Pieter Burghout
Chairman
Construction Industry Council