

eboss building industry
confidence report

DECEMBER 2009

eBoss, the online technical library for the New Zealand building industry, has conducted its quarterly survey of building industry professionals to assess confidence levels amongst the architects, architectural designers, builders, engineers, interior designers, specifiers and suppliers that comprise the New Zealand building industry. More than 175 building industry professionals representing every region of New Zealand responded to the survey.

OVERVIEW

The Q4 eBoss survey paints a picture of a more buoyant mood across the building industry, with increased job security as well as predictions of recovery in 2010 and a return to 20,000 building consents in 2011. An overview of the results is provided below.

SUPERCITY & CENTRALISING BUILDING CONSENTS: STILL SLOW, BUT MORE CONSISTENT

Centralisation of building consents is proposed for Auckland Supercity, as well as Northland, Napier/Hastings and other regions, and the industry is hopeful that consistency of interpretation for what is required for consent will follow-suit. While more than half of the industry (52.9%) say they do not believe centralising will increase the speed of processing, two thirds (66.9%) are hopeful there will be improved consistency. This is an issue that many say has been hamstringing the industry for years, adding time and cost to projects.

CAPITAL GAINS TAX A WORRY FOR 70%

Finance Minister Bill English has given strong hints a capital gains tax may be upon us for investment properties. Almost two thirds of the industry (63.2%) say they would not be in favour of a capital gains tax, with 24.7% saying they are okay with it. More than 70% of the industry (71.4%) believe a capital gains tax would have negative effects on the industry within the first 2 years of being introduced, with 20% of those saying it will be devastating. After 5+ years, 17.2% can see some positives coming from the tax for the industry.

RENOVATIONS KEEPING THE INDUSTRY BUOYANT

The single biggest type of work currently on the books for the industry is residential renovations, at 25.9%, which is in line with the eBoss Q2 survey results and the predictions of the eBoss Q2 report. Some say this is due to the availability of builders for smaller jobs, and relaxation with consents for smaller renovations. The biggest category overall is an even mix of residential and non-residential (29.5%),

INDUSTRY CONFIDENCE BOOMING

In just one quarter, the number of people in the industry who say it has withstood the downturn better than expected has increased more than 10% (12.8), from 41.5% to 54.3%. Looking ahead for the next year, almost 75% predict the situation for the industry will improve, which is up a dramatic 30% in just one quarter. An optimistic one third believe there will be a turnaround within 6 months, up more than 20% from Q2. Significantly, the number of people who believe there is still a way to go down over the next 6 months has dropped to a negligible 12.6% compared to more than two thirds in Q1.

RECOVERY DRIVERS

Availability of finance was named as the single biggest influence on building activity going forward, followed by interest rates. In distant third is migration at 11.6%, followed by Building Consent and Building Act changes at 7%. RMA changes barely get a mention at 0.6%.

JOB SECURITY CONFIDENCE LEVELS UP SINCE Q2

Half of the industry (50.6%) report their jobs are secure, representing a lift of 10% from just 3 months ago.

BUILDING CONSENT NUMBERS TO RECOVER IN 2011

The median prediction among survey respondents for the annual total of 2009 building consents was 15,500. (The actual annual total ended up being 14,425.) Many industry experts believe 20,000 is the magic, sustainable number, which almost half of survey respondents (47.1%) predict we will reach again in 2011. One third (32.4%) believe that will happen in 2010.

POST-DOWNTURN: BURGEONING CONFIDENCE

54.3% of respondents say the industry has held up better than they expected since the December 08 downturn, which is an improvement of almost 15% in just one quarter. In addition, many have taken stock and concluded things did not deteriorate as much as expected. The number of people saying the industry downturn was as they expected is down more than 10% from Q2 to just 33.5% in Q4.

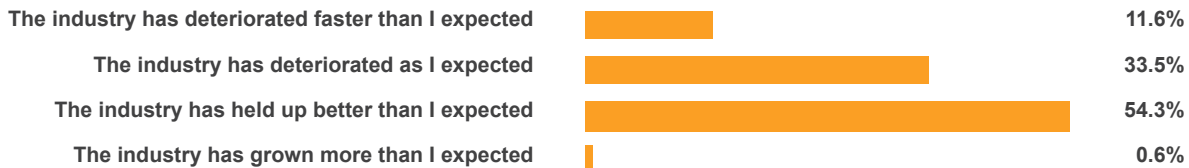
Just 11.6% say the industry has deteriorated faster than they expected. Among these is one Auckland-based architectural designer who says, "New contracts are not starting quickly enough, and the size of them is generally smaller than previous due to a lack of capital amongst customers."

Another Canterbury-based architectural designer in this camp says, "I could not believe the way the confidence fell out of the market and everything just imploded."

ADNZ Chairman, Mike Flooks says the improved confidence overall reflect his observations across the industry.

"The signs are all there that it's improving. The phones are ringing again and enquiry is up, which makes everyone feel more positive. Customers may be slow committing to jobs, but we are finding that people are now going ahead with jobs that were put on hold a year ago. The arrival of summer helps and always creates a bit of a lift, but we are recovering, though it is likely to be slow and steady."

WHICH STATEMENT MOST CLOSELY RESEMBLES YOUR OPINION ABOUT THE ACTUAL PERFORMANCE OF THE INDUSTRY SINCE THE FINANCIAL RECESSION HIT NZ IN DECEMBER 08?





SLOW BUT STEADY ROAD TO RECOVERY

Looking ahead for the next year, almost 75% predict the situation for the industry will improve, which is up a dramatic 30% in just one quarter. Another optimistic one third believe there will be a turnaround within 6 months, up more than 20% from Q2.

Significantly, the number of people who believe there is still a way to go down over the next 6 months has dropped to a negligible 12.6% compared to more than two thirds in Q1.

Gareth Kiernan, Managing Director of Infometrics says these numbers reflect indications generally that the economy is coming out of the bottom, however he is somewhat surprised at the level of improvement in confidence.

“If you had a different sample focused more on new residential builds, I believe the response would be less optimistic. However, there is currently more good news going through the industry overall, so people’s assessment of the situation changes. There is a big convergence between what people are experiencing right now and what they think will happen a few months down the track, which explains the attitude shift.”

Derek Baxter, CEO of Certified Builders agrees that all things are pointing to the decline having stopped, however he believes it is premature to use the word ‘recovery’ to describe the industry at this stage.

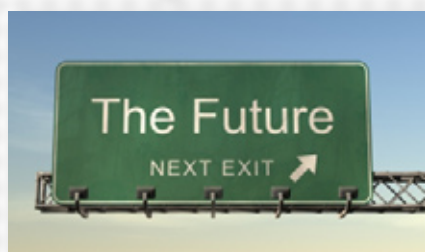
“The right word would be somewhere between survival and recovery,” says Baxter. “Where there are increases they are modest. And, it is important to consider if the modest upswing is just a normal, cyclical summer rise. I believe we are still hovering at the bottom of the trough as an industry, although there are niches picking up, particularly additions and alternations.”

Mike Flocks adds that enquiry levels were quite flat just 3 months ago, and the resurgence of enquiry partially accounts for the confidence lift over the last quarter.

“The confidence boost is also a reflection of global confidence and what’s coming through the media. In addition, interest rates are low and job security is higher, which makes it a good time to build again,” says Flocks.

DO YOU THINK THE BUILDING INDUSTRY IS GOING TO IMPROVE OR WORSEN OVER THE FOLLOWING TIME PERIODS?

	IMPROVE	NO CHANGE	WORSEN
6 MONTHS	34.3%	53.1%	12.6%
12 MONTHS	73.7%	21.1%	5.1%
24 MONTHS	84%	13.1%	2.9%
24+ MONTHS	85.7%	10.9%	3.4%





JOB SECURITY CONFIDENCE ON THE MEND

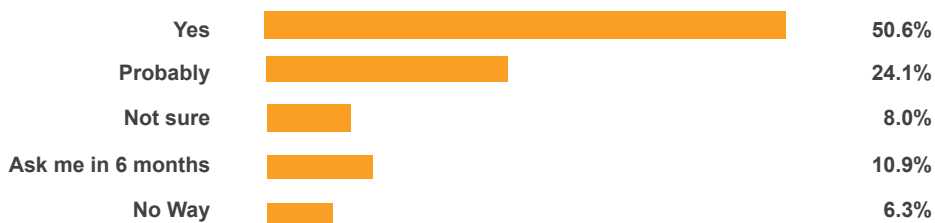
Almost 75% (74.7) of the industry believe their jobs are secure or probably secure. Included in this number is 50.6% who believe their jobs are definitely secure, representing a lift of 10% from just 3 months ago.

Derek Baxter explains, "Companies have already adjusted staff levels downward in order to match the amount of work and are not shrinking any further. At the same time, large firms are enjoying the ability to get

highly qualified and experienced staff – there's more choice now."

Mike Flooks agrees, saying, " There are a few situations where people are still being laid off, which is quite dependent on which part of the market you are in. However most of what was going to happen in terms of redundancies has happened."

DO YOU FEEL THAT YOUR JOB IS SECURE?



MORE WORK IN THE PIPELINE

The survey reveals that 70.4% of the building industry have up to 6 months of forward work or more, almost mirroring the Q2 figure of 72.1%. This figure is relied upon by builders in particular as a lead indicator of what will happen six months down the track.

The number of firms who have 3 to 6 months is trending upwards since Q2 (now at 36.1%), so things are heading in the right direction.

Gareth Kiernan explains, "We are not expecting massive jumps at this stage, and this gradual improvement since the last quarter is taking us in the right direction. We will be looking at the middle of next year before we see

that kick up a bit faster."

Mike Flooks says his own firm would fall into the 3 to 6 month range.

"Even 4 or 5 months ago, we wouldn't have been that far out. It is interesting to note that it has become the norm over the past 2 or 3 years to have 6 months of work in front of you, however if you go back 7 years or so, it would have been much less. People started to panic when that forward work wasn't there, however if you have been in the industry for some time, you may have lived through this phenomenon before."

HOW MUCH WORK DOES YOUR COMPANY HAVE ON ITS BOOKS?





RENOVATIONS KEEPING THE INDUSTRY BUOYANT

As reported by eboss in previous surveys, and in line with recent media reports, the single biggest type of work currently on the books for the industry is residential renovations, at 25.9%. The biggest category overall is a mix of residential and non-residential (29.5%), followed by residential new builds (24.1%) and finally non-residential (20.5%).

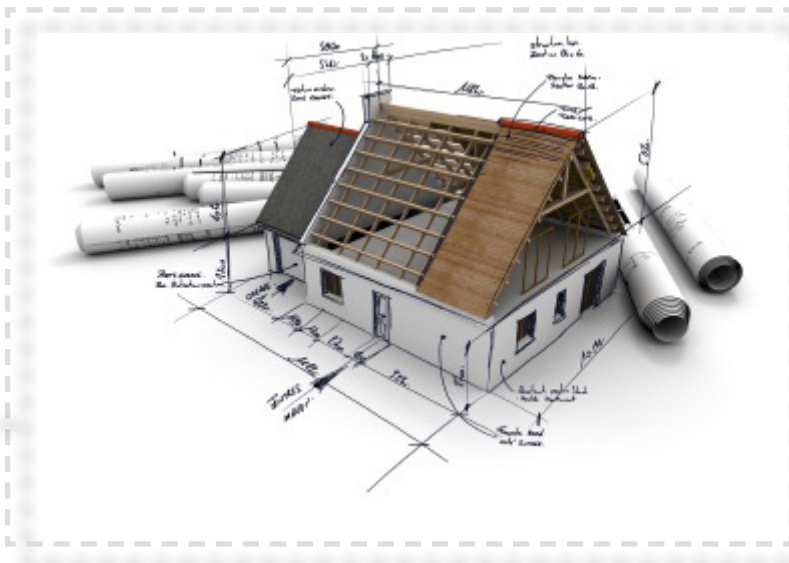
Mike Flocks is not surprised by the numbers, but predicts a gradual increase in new builds in the coming months.

“People tend to stay put in recession rather than shifting and building something new. We’ve had a

predominant swing toward renovations over the last year or 18 months, but over just the past 4 months we have seen a return of new build work to the point that we now have an even pool of residential and renovation in our own firm,” said Flocks.

Derek Baxter adds, “Residential renovations have been steady at 1.3billion for three years. About a year ago, changes to Schedule 1 of the Building Act freed up the amount of work needing consent. The statistics data only calculates consented renovation work, so there’s a whole lot of unconsented work being done as well as that recorded 1.3 billion.

PLEASE INDICATE THE TYPE OF WORK ON YOUR BOOKS?





BUILDING CONSENT NUMBERS TO RECOVER IN 2011

Annual Residential Building Consents for 2008 were 18,456 compared with 25,544 in 2007. 2009 Building consents to December 09 ended up totalling 14,425.

The median estimate among survey respondents for the 2009 annual total was about 15,500, which Mike Flooks says is a realistic projection of where we will land.

"I'd pick between 14000 and 15500, although the final figure could be slightly higher given the recent increase in enquiries."

Many industry experts believe 20,000 is the magic, sustainable number for the industry. Almost half of survey respondents (47.1%) predict we will reach that figure again in 2011, while one third (32.4%) believe that will happen in 2010.

Gareth Kiernan explains, "Either late 2010 or early 2011 is when we are forecasting to be on pace for 20,000, however I still believe that will depend on the availability of finance."

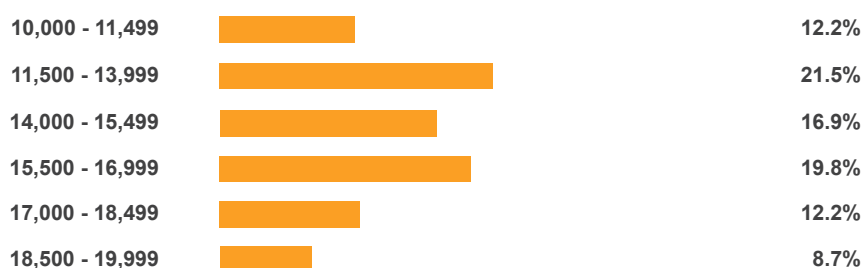
Derek Baxter points out that it is interesting that three quarters of the industry believe it will recover in 2010,

but only one third predict a return to 20,000 consents in 2010.

"I agree with many of those surveyed who say we are still a ways off being back above 20,000 new residential building consents. However, I think that why we're seeing such large numbers in the industry predicting recovery in 2010 in spite of this has to do with the number of architectural designers operating in the renovation space. That area has held steady through the downturn and is in fact growing. And, renovations aren't reflected in those new-build consent numbers."

Adds Baxter, "We have existing housing shortages and we have enjoyed positive net migration for some time, so new builds will pick up. But there are some funny things going on with banking. Short term interest rates are low but longer term rates are really well above the 10 year average. People building new houses tend to look at those long-term fixed rates rather than short term floating rates, so we anticipate more people will stay in their existing house and do it up rather than build new until that interest rate situation stabilises."

ANNUAL RESIDENTIAL BUILDING CONSENTS FOR DECEMBER 2008 WERE 18,456 COMPARED WITH 25,544 FOR 2007. 2009 BUILDING CONSENTS TO APRIL 09 TOTAL 3408. WHAT DO YOU ESTIMATE WILL BE THE TOTAL RESIDENTIAL BUILDING CONSENTS FOR THE YEAR ENDING DECEMBER 2009 (INCLUDING APARTMENTS)?



MANY INDUSTRY COMMENTATORS CLAIM THAT THE INDUSTRY BECOMES SUSTAINABLE WITH 20,000 RESIDENTIAL BUILDING CONSENTS. WHEN DO YOU ESTIMATE BUILDING CONSENTS WILL REACH THIS LEVEL?



INFLUENCES ON BUILDING ACTIVITY GOING FORWARD

51.2% of the industry say the availability of finance will be the biggest influence on building activity going forward, followed by 29.7% who name interest rates. In distant third is migration at 11.6%, followed by Building Consent and Building Act changes at 7%. RMA changes barely get a mention at 0.6%.

Mike Flooks is quick to point out that this does not mean the RMA and building consent processes don't need to change.

"The availability of finance will either stop or start a project and so that is the biggest factor for stimulating activity, but once that is in place you still require the business consent and RMA process to be effective and efficient so you don't encounter time delays and additional expense."

Gareth Kiernan agrees with the assessment made by survey respondents, saying, "There are no surprises here, and we have said since the beginning of the

downturn that the availability of finance is definitely the overriding factor for recovery, with interest rates being secondary."

However, Derek Baxter remains unconvinced.

"Availability of finance is a factor in very large construction projects, which is evident when you look around and try to identify any privately financed large construction projects that have started this year. However, for the residential market I don't think availability of finance is the issue - it's about customer confidence, including the confidence to put themselves into debt to the same levels. Job security factors into those confidence levels, as does capital gain. People factor that in to their financing decisions, and right now there is a question mark over a potential capital gains tax. When those things are more stable and confidence returns, there will be more building activity."

WHAT DO YOU THINK WILL BE THE BIGGEST INFLUENCE ON BUILDING ACTIVITY GOING FORWARD?



CENTRALISATION OF BUILDING CONSENTS: MIXED FEELINGS

The picture for consistency of interpretation of what is required for consents is rosier than the outlook for processing speed, with two thirds of the industry (66.9%) believing there will be improved consistency post-centralisation.

One Wairarapa builder who does not believe consistency will be improved through centralised processing says, "There are inconsistencies now in small teams of processors, so it will be worse in bigger teams."

However, Gareth Kiernan believes it is reasonable to expect consistency to improve.

"There is scope for improvement with consistency, and it makes sense that with a more centralised team doing the processing, you will get a more consistent interpretation and reduce the number of times you need to go back with plans."

Derek Baxter is hopeful that centralisation will improve

consistency, which he says is a major issue for the industry.

"This is a common source of complaint from builders. In some cases they cross the road to a different council boundary and get a different set of rules. When you consider there will be about 15,000 consents issued this year and there are 73 accredited building consent authorities interpreting the rules – it's crazy!"

Baxter adds, "Since the announcement of centralisation of consents being essentially forced on the Supercity, we're noticing other regions getting together off their own bat. Five Councils in the Bay of Plenty have met to discuss it, as well as Southland District, Invercargill City and Gore. Centralising is an area being looked at as part of the Building Act review and it may ultimately be the case that central government imposes it as part of the Building Act Review, along with allowing greater flexibility in the types of projects that don't require consents."

DO YOU BELIEVE THAT CENTRALISING WILL IMPROVE CONSISTENCY OF INTERPRETATION OF WHAT IS REQUIRED FOR CONSENTS?





CONSENTS AND THE SUPERCITY: NOT FASTER, MORE CONSISTENT

Building consents will be centralised as part of Auckland Supercity, and many other groups of Councils around the country are considering following suit. There are mixed feelings about centralising building consent processing, with a slim margin of just 5% between the 'Yes' contingent (40.6%) and those who oppose the idea (35.4%).

Among the 'No' vote is a Southland Architectural Designer who says, "The current local consent authorities have a good understanding of the local

peculiarities of their own area which will be lost or ignored by centralisation."

On the other side, Mike Flooks believes there is a lot of merit in having a central processing organization.

"It has the potential to make it much easier from a designer or architects point of view if the expectations for what needs to be submitted don't vary so much between Councils," says Flooks.

PROCESSING OF BUILDING CONSENTS WILL BE CENTRALISED AS PART OF AUCKLAND SUPERCITY AND SIMILAR PLANS ARE BEING CONSIDERED IN NORTHLAND, NAPIER/HASTINGS AND OTHER REGIONS. ARE YOU IN FAVOUR OF THIS?



CENTRALISATION NOT EXPECTED TO INCREASE SPEED OF PROCESSING

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DO YOU BELIEVE THAT CENTRALISING OR CLUSTERING THE PROCESSING OF BUILDING CONSENTS ACROSS GROUPS OF COUNCILS WILL INCREASE THE SPEED OF PROCESSING?



CAPITAL GAINS TAX NOT GOOD NEWS IN THE NEAR TERM

Finance Minister Bill English has given strong hints a capital gains tax may be upon us for investment properties. Almost two thirds of the industry (63.2%) say they would not be in favour of a capital gains tax, with 24.7% saying they are okay with it.

More than 70% of the industry (71.4%) believe a capital gains tax would have negative effects on the industry within the first 2 years of being introduced, with 20% of those saying it will be devastating. After 5+ years, 17.2% can see some positives coming from the tax for the industry.

Among those in favour of the tax is an Auckland Architectural Designer who says, "I am in favour of a tax which stops speculators who ruin the industry by making large profits and not adding value or creating industry job opportunities."

Gareth Kiernan explains that if a capital gains tax is introduced, it will have a negative property market in the short term.

"Investor demand for buying houses has already softened due to uncertainty about what the government will do in terms of a capital gains tax. Once it is actually announced then there is the potential for a significant slowdown in the property market next year, albeit temporarily.

"At the moment, investors make their calculations based on no tax, but the return on investment will not be as good once it is introduced, so you'll need some other mechanism to recover that lost return, such as rent prices increasing.

"We will still have the same underlying demand for the number of houses we need, so over the longer term the situation will sort itself out. But in the near term a tax will distort the price signals and we won't get the building activity. If we get government policy impacting residential building activity and keeping it down, that's not good news for an industry that has already had a tough year or two."

A TAX WORKING GROUP SET UP BY THE GOVERNMENT TO LOOK AT WIDER TAX REFORM IS CURRENTLY INVESTIGATING A CAPITAL GAINS TAX, SOMETHING WHICH HAS BEEN RECOMMENDED BY TREASURY. FINANCE MINISTER BILL ENGLISH HAS EXPRESSED CONCERN ABOUT A PREMATURE HOUSING BOOM BEING DAMAGING TO THE ECONOMY AND THAT A CAPITAL GAINS TAX COULD BE AN OPTION TO TRY AND CURB THAT. WOULD YOU BE IN FAVOUR OF A CAPITAL GAINS TAX?



WHAT IMPACT DO YOU THINK THE INTRODUCTION OF A CAPITAL GAINS TAX WOULD HAVE ON THE INDUSTRY OVER THE FOLLOWING TIMEFRAMES?

	DEVASTATING	SLIGHTLY NEGATIVE	NEUTRAL / NO DIRECT IMPACT	SLIGHTLY POSITIVE	VERY POSITIVE
1 - 2 YEARS	20%	51.4%	26.3%	2.3%	0%
3 - 4 YEARS	12%	45.7%	34.9%	6.9%	0.6%
5+ YEARS	10.9%	33.7%	38.3%	14.3%	2.9%



ONLINE SPECIFICATION RESOURCE

Just over two years after its launch, online architectural product library eboss registered its 11,000th subscriber in December 2009. The rapid take-up from New Zealand's design professionals reflects the architectural and construction industries' willingness to embrace technology that streamlines the way they work.

The Kiwi-developed eboss site has been intuitively designed to save both time and resources. Providing information for a variety of architectural drawing programmes, eboss

allows architects, designers and engineers to browse and specify from a user-friendly library of reliably up-to-date product manuals, as well as providing monthly technical updates from NZ's leading suppliers to the building industry.

Through its relationship with the majority of architects and architectural designers, eboss conducts regular surveys to gather feedback on architectural industry, to enable a forecast for the NZ building industry.