SECOND QUARTER 2019

FORECAST REPORT 91

NEW ZEALAND TRENDS IN PROPERTY AND CONSTRUCTION

Rider Levett Bucknall

OFFICES AROUND THE WORLD

AFRICA

Botswana
Gaborone

Mauritius
Saint Pierre

Mozambique
Maputo

South Africa
Cape Town
Johannesburg
Pretoria

ASIA

North Asia
Beijing
Chengdu
Chongqing
Dalian
Guangzhou
Guiyang
Haikou
Hangzhou
Hong Kong
Jeju
Macau
Nanjing
Nanning
Qingdao
Seoul
Shanghai
Shenyang
Shenzhen
Tianjin
Wuhan
Wuxi
Xiamen
Xian
Zhuhai

South Asia
Bacolod
Bohol
Cagayan de Oro
Cebu
Davao
Ho Chi Minh City
Iloilo
Jakarta
Kuala Lumpur
Laguna
Metro Manila
Singapore
Yangon

AMERICAS

Caribbean
Barbados
Cayman Islands
St. Lucia

North America
Austin
Boston
Calgary
Chicago
Denver
Guam
Hilo
Honolulu
Las Vegas
Los Angeles
Maui
New York
Orlando
Phoenix
Portland
San Francisco
Seattle
Toronto
Tucson
Waikoloa
Washington DC

EUROPE

United Kingdom
Birmingham
Bristol
Cumbria
Leeds
London
Manchester
Sheffield
Thames Valley
Warrington/Birchwood
Welwyn Garden City

RLB | Euro Alliance
Austria
Belgium
Czech Republic
Finland
Germany
Hungary
Ireland
Italy
Luxemburg
Netherlands
Norway
Poland
Portugal
Russia
Spain
Sweden
Turkey

MIDDLE EAST

Oman
Muscat

Qatar
Doha

Saudi Arabia
Riyadh

United Arab Emirates
Abu Dhabi
Dubai

OCEANIA

Australia
Adelaide
Brisbane
Cairns
Canberra
Coffs Harbour
Darwin
Gold Coast
Melbourne
Newcastle
Perth
Sunshine Coast
Sydney
Townsville

New Zealand
Auckland
Christchurch
Hamilton
Palmerston North
Queenstown
Tauranga
Wellington

Cover: No.1 Sylvia Park, Auckland

CONFIDENCE TODAY INSPIRES TOMORROW

RIDER LEVETT BUCKNALL

With a network that covers the globe and a heritage spanning over two centuries, Rider Levett Bucknall is a leading independent organisation in cost management and quantity surveying and advisory services.

Our achievements are renowned: from the early days of pioneering quantity surveying, to landmark projects such as the Sydney Opera House, HSBC Headquarters Building in Hong Kong, the 2012 London Olympic Games and CityCenter in Las Vegas.

We continue this successful legacy with our dedication to the value, quality and sustainability of the built environment. Our innovative thinking, global reach, and flawless execution push the boundaries. Taking ambitious projects from an idea to reality.

FORECAST 91

Prepared by the New Zealand Institute of Economic Research (Inc.) exclusively for Rider Levett Bucknall, Forecast is produced quarterly and provides detailed local construction market intelligence and knowledge.

CONSTRUCTION MARKET INTELLIGENCE

Forecast is supplemented by Rider Levett Bucknall's construction market intelligence publications: the International Report, regional (including the Oceania Report) and country specific reports.

KEY POINTS IN THIS ISSUE

Further lift in construction activity

Construction growth picked up in the December 2018 quarter, led by increased demand for non-residential construction. Consent issuance also points to a solid pipeline of construction activity. However, capacity constraints are likely to limit the extent to which construction ramps up further, despite robust demand.

Uncertain migration picture

There is uncertainty over the true migration picture, given the change in methodology used by Statistics NZ to measure permanent and long-term arrivals and departures. The official net migration measure now shows one of a reacceleration in net inflows, in contrast to the slowing seen in the previous measure. Given the new measure relies on provisional estimates which will likely be revised later on, these trends should be interpreted with caution. Overall, net migration looks to be solid, and should continue to support construction demand.

Growing non-residential construction demand, led by Auckland

Construction growth has been dominated by Auckland, and this is reflected in the growth in non-residential construction demand in the region. Demand for new accommodation and retail outlets has been particularly strong in Auckland.

Interest rates cut, with potential for further easing

The Reserve Bank surprised markets by indicating in March it was likely to cut the Official Cash Rate (OCR), and followed through by cutting at its May Monetary Policy Statement (MPS). The central bank has left the door open for further easing in monetary policy, and we expect it will follow up with another cut in September.

Christchurch Outpatients Facility, Christchurch

BUILDING ACTIVITY TRENDS

Construction activity picked up towards the end of 2018, driven by an increase in both residential and non-residential construction. Consent issuance also points to a solid pipeline of construction ahead. Solid population growth is supporting demand for both residential and non-residential construction.

Growth in construction demand has been dominated by Auckland, reflecting the effects of strong population growth in the region in recent years. In particular, the surge in housing demand has led to stronger residential investment in Auckland. For non-residential construction, Auckland has seen particularly strong growth in demand for new accommodation and retail outlets over the past year.

The strong population growth in Auckland has spilled over to increased construction demand in its neighbouring regions. Waikato has seen a broad-based lift in non-residential construction, with strong growth in accommodation, social and storage buildings.

Construction activity in Canterbury has stabilised, after easing from its post-earthquake rebuild peak seen around 2016. Increased demand for education and storage buildings is driving non-residential construction activity in the region over the past year.

Wellington continues to see strong demand for office construction, reflecting the effects of the earthquake in 2017. However, this has been offset by softer demand for new accommodation buildings.

The new data on net migration shows a reacceleration of net inflows. However, it is very difficult to now get a true picture on migration in New Zealand given the new methodology adopted by Statistics NZ. With the removal of departure cards, Statistics NZ has had to move away from a self-reported intentions-based measure to a passport-linked measure. Given the true status of travellers can only be known 16 months after they have crossed the NZ border (with a permanent arrival being someone who has spent 12 of the 16 months in the country), provisional estimates must be made in the meantime. This means the migration data will be prone to revisions and needs to be interpreted with caution.

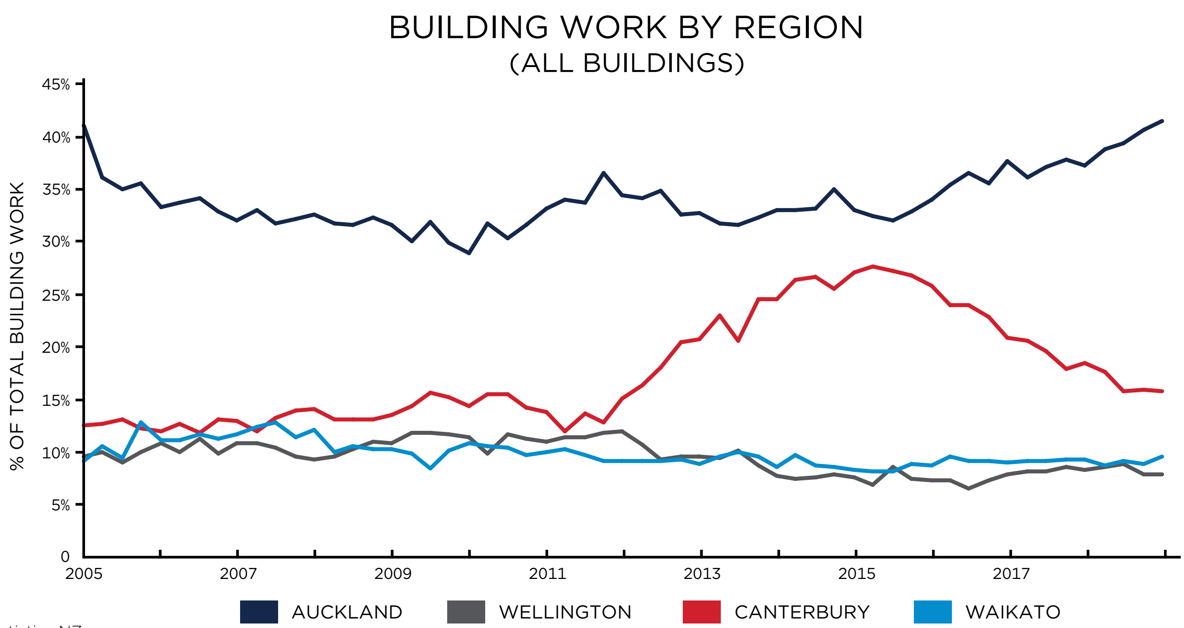
Beyond this uncertainty over the trend for net migration, the overall picture is one of solid net inflows into the economy, albeit perhaps not as strong as initially thought. Strong migration-led population growth, along with lower mortgage rates, should continue to underpin construction demand over the coming years.

Although underlying demand for construction remains strong, capacity pressures in the construction sector will likely limit the pace at which construction activity picks up further. Firms in building construction still report acute labour shortages, particularly for skilled labour.

FIGURE 1

Construction activity dominated by Auckland

% of total building work per quarter, by value each quarter



Source: Statistics NZ

BUILDING ACTIVITY OUTLOOK

The combination of robust underlying construction demand and capacity constraints mean that the construction cycle is likely to be even more protracted than previously expected. Tighter access to finance may also weigh on construction growth, although lower interest rates improve the feasibility of construction developments. The likelihood of the Reserve Bank introducing increased capital requirements for banks adds uncertainty over the appetite for banks to lend.

There are many forces buffeting the construction sector. Low operating margins, labour shortages, and uncertainty of cashflow continue to beset construction sector firms. A net 14 percent of these firms surveyed in the NZIER Quarterly Survey of Business Opinion (QSBO) reported reducing prices in the past quarter, despite over half of these firms reporting facing higher costs.

The issue of the ability and willingness of construction sector firms to bear the risk of cost overruns in the current environment of continued strong upward cost pressures has hampered developments.

The strong increase in costs will attract more resources such as workers to the sector, with capacity pressures likely to ease as a result. We expect construction cost inflation will moderate from high levels over the coming years.

ECONOMIC BACKDROP

Business confidence improved towards the end of last year, but this rebound proved short-lived. Businesses reported a deterioration in both their assessment of general economic conditions and demand in their own business in the March 2019 quarter. Weak profitability remains a negative development for many businesses. These results suggest a slowing in annual GDP growth to around 2 percent this year.

The trade war between the US and China poses increasing downside risks to the global growth outlook. The potential for economic growth to slow in each of these countries in turn has negative implications for demand for New Zealand exports. China and Australia are our main trading partners, and a slowdown in the Chinese economy would likely flow through to reduced demand for both New Zealand and Australian exports. Hence New Zealand could be affected through slowing export demand from both China and Australia.

INTEREST AND EXCHANGE RATES

The Reserve Bank surprised markets by indicating in March it was likely to cut the OCR and followed through with a 25 basis point cut in May. The central bank has left the door open for further easing in monetary policy, and we expect it will follow up with another cut in September. It has focused on the potential for the global growth outlook to deteriorate.

Meanwhile, the US Federal Reserve has also become more concerned about the growth outlook and persistently low inflation. The central bank has shifted its stance, and is now projecting no further policy rate increases over 2019.

Despite both central banks becoming more dovish, the surprise interest rate cut in NZ and expectations of further easing drove a depreciation in the NZD/USD.

BUILDING INVESTMENT

Despite the lift in consent issuance in recent months indicating solid construction activity in the near term, the NZIER QSBO architects' measure of own activity suggest a softening in the pipeline of construction work across the residential, commercial and Government sectors. This softening may show up as weaker growth later in 2019, but we expect the level of activity to remain high

BUILDING CONSENTS

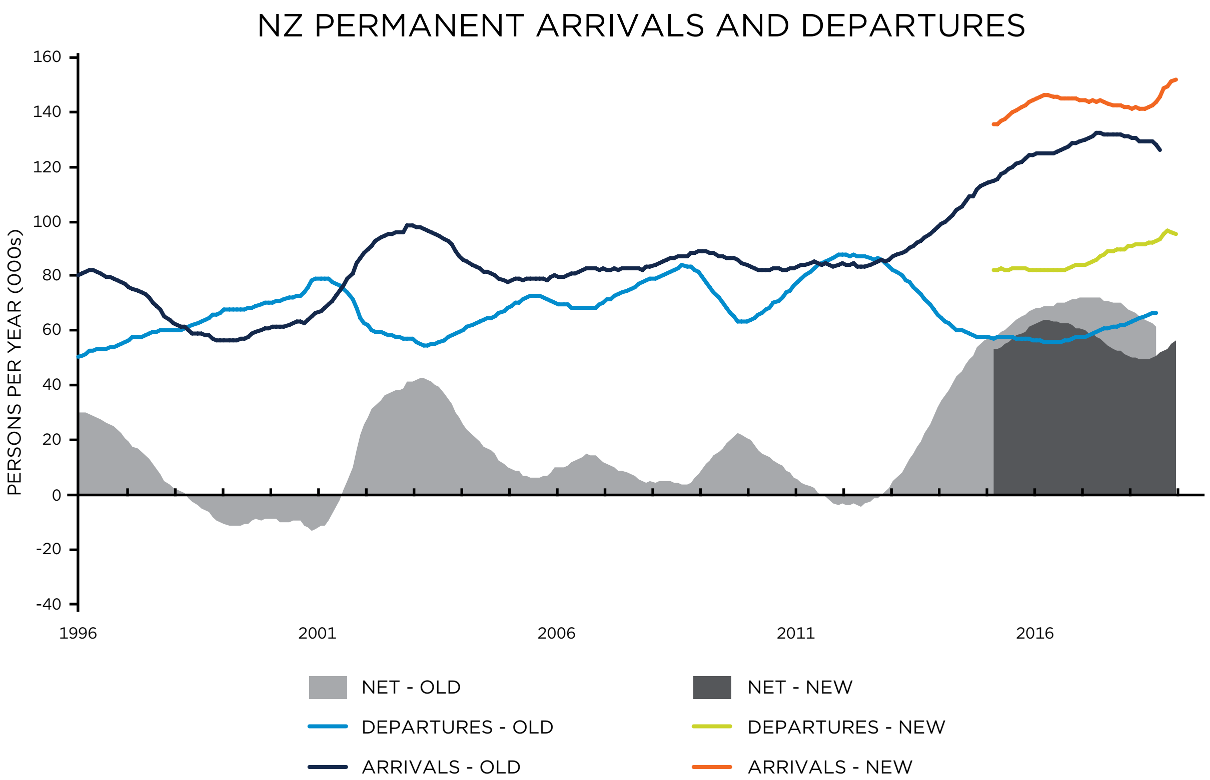
Demand for new retail outlets remained the top driver of non-residential construction growth over the past year, reflecting strong demand in Auckland. Although there was also strong growth in demand for new accommodation buildings, there was some offset from the decline in alterations of this type of construction.

Non-residential construction demand is solid, but the easing in value per square metre of non-residential construction consent issued suggests a moderation in construction cost inflation. We expect that strong construction cost growth will encourage more resources such as labour to enter the sector, with the easing in capacity pressures leading to slower construction cost inflation over the coming years.

FIGURE 2

Mixed picture for migration given new methodology

Annual number of people



Source: Statistics NZ

PWC Centre, Wellington

Building consents by sector

The trade war between the US and China continues to pose downside risks for the global growth outlook and in turn demand for New Zealand exports. This may reduce demand for new storage, industrial and farm buildings. For now, demand for storage buildings is solid.

Over the longer term, robust migration-led population growth and tourist inflows should underpin improved demand:

- Office growth to accommodate the higher number of white collar workers.
- New accommodation buildings in response to the continued high numbers of international visitors, as well as strong domestic tourism activity.

Earthquake strengthening activity should also continue to contribute to non-residential construction demand.

Building consents by region

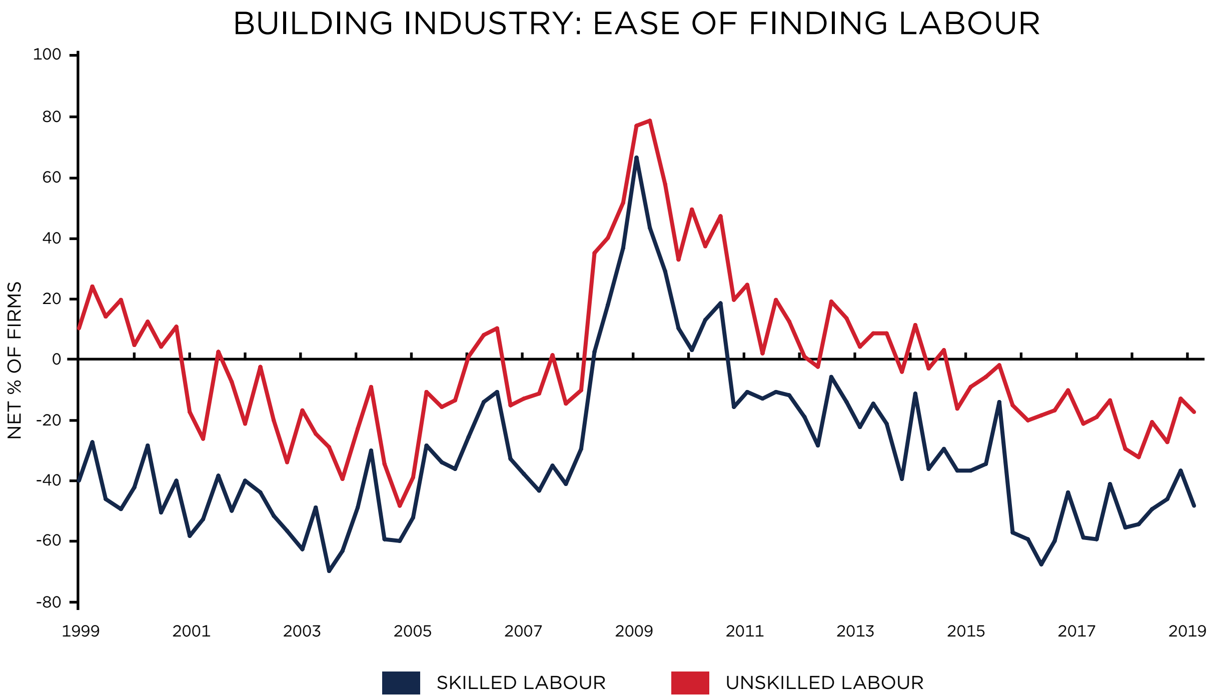
Growth in non-residential construction over the past year remained strongest in Auckland, followed by Waikato and then Otago. In Auckland, there was particularly strong growth in demand for new retail outlets and accommodation buildings. This was also seen in Otago. We expect this trend to continue reflecting the effects of strong population growth and tourism activity in the regions.

Meanwhile, growth in non-residential construction demand in Waikato has been underpinned by stronger demand for social and storage buildings.

FIGURE 3

Building sector labour shortages remains acute

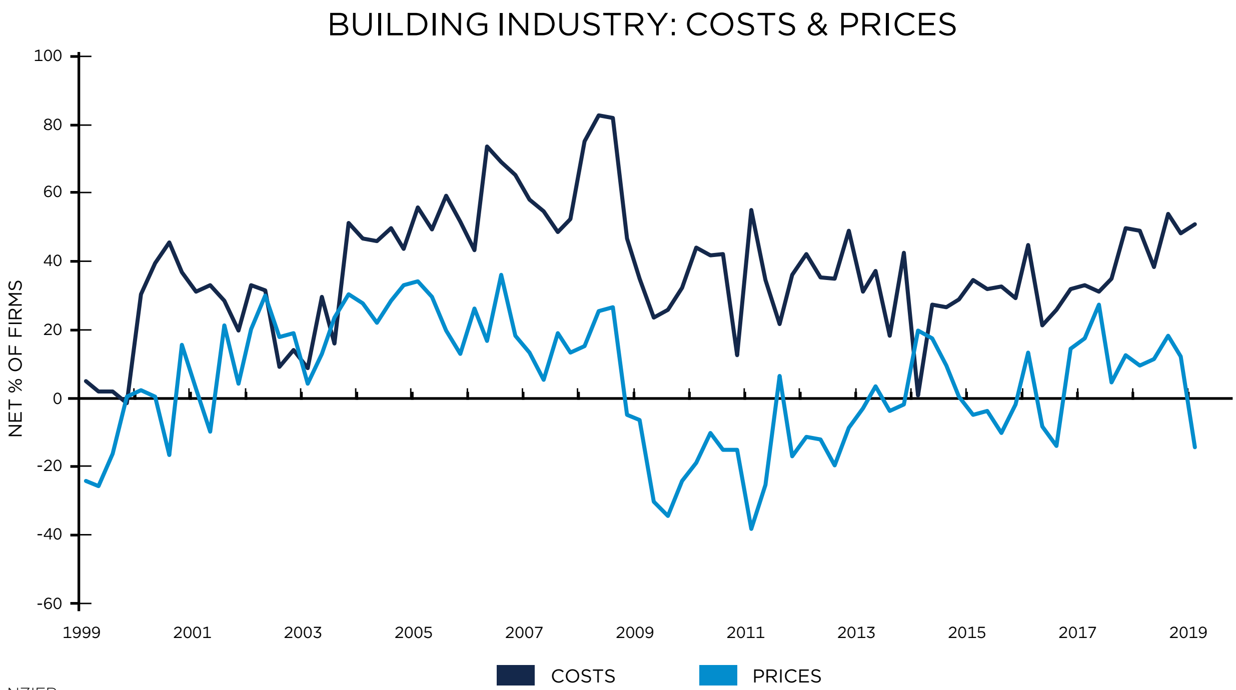
Net % of firms



Source: NZIER

FIGURE 4

Building sector firms finding it difficult to pass on rising costs

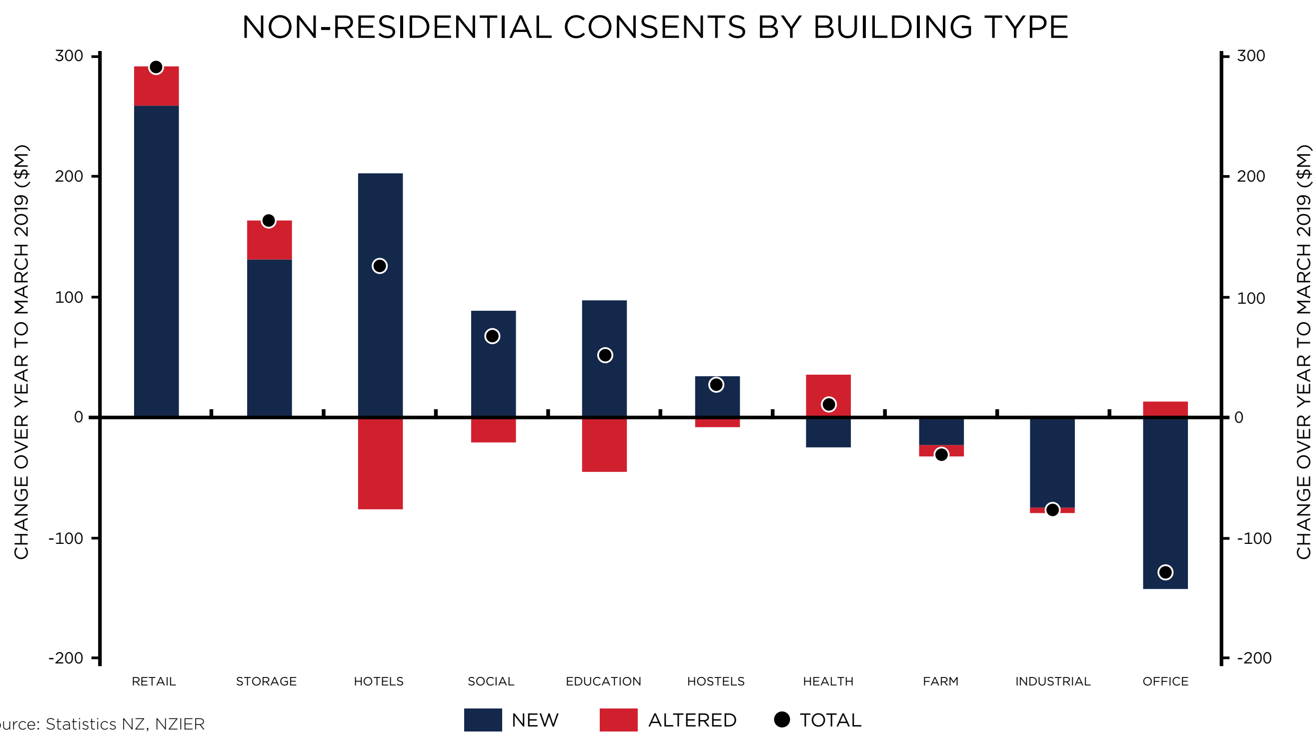


Source: NZIER

FIGURE 5

Retail demand remains top driver of growth in non-residential construction demand

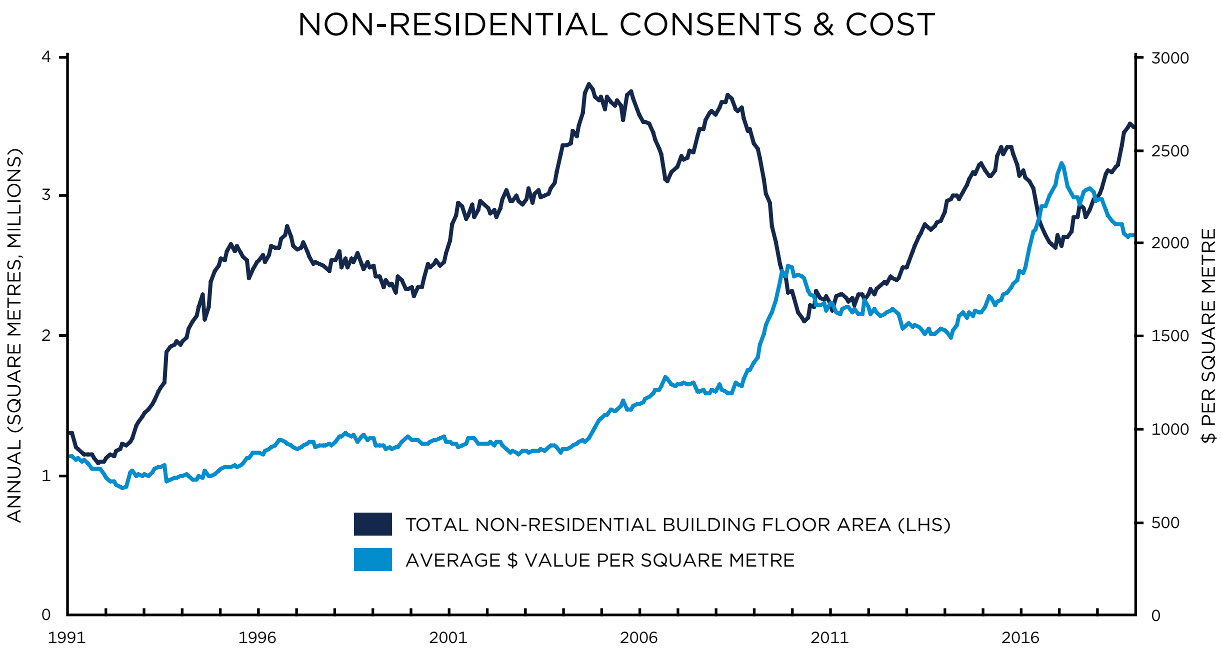
Annual change in consents, $m, year ended March 2019



Source: Statistics NZ, NZIER

FIGURE 6

Construction cost inflation easing, but from high levels



Source: Statistics NZ

TABLE 1

Non-residential building consents by region and sector

$m of consents for the year ending July 2018; red colour shading for decline in consents from previous year

	SECTOR									
REGION	HOSTELS, PRISONS ETC	ACCOMODATION	HEALTH	EDUCATION	SOCIAL, CULTURAL, RELIGIOUS	RETAIL	OFFICE	STORAGE	INDUSTRIAL	FARM
NORTHLAND	1.9	10.7	12.9	33.3	26.7	20.1	11.6	13.6	14.6	19.9
AUCKLAND	117.1	225.3	167.7	475.4	304.0	623.8	372.5	437.9	236.0	33.0
WAIKATO	35.3	27.3	47.8	65.9	57.9	58.2	62.5	81.5	107.0	104.0
BAY OF PLENTY	0.6	24.3	51.2	35.4	33.1	107.7	42.5	104.9	48.6	14.5
GISBORNE	0.1	1.1	0.1	2.2	4.3	1.4	2.8	0.9	2.1	2.1
HAWKE'S BAY	7.3	5.8	26.0	6.8	17.2	13.7	33.5	21.5	14.4	7.0
TARANAKI	0.0	3.2	3.0	13.2	8.8	17.0	26.8	10.4	16.8	15.0
MANAWATU-WANGANUI	4.6	1.2	14.1	22.3	18.9	6.1	36.0	21.4	25.6	19.3
WELLINGTON	2.4	6.9	26.6	69.1	50.8	54.0	147.9	28.6	52.8	9.2
NELSON	0.0	0.1	30.2	5.3	1.1	3.4	4.5	4.7	3.3	0.1
TASMAN	0.7	6.1	0.7	7.0	1.4	2.9	2.8	6.0	8.8	1.8
MARLBOROUGH	1.9	0.0	0.2	3.0	6.0	10.8	0.6	2.0	11.7	6.7
WEST COAST	0.0	1.5	1.4	2.4	2.7	1.5	2.6	0.5	9.1	4.8
CANTERBURY	61.0	57.0	62.8	338.6	228.7	151.9	142.5	210.6	73.0	50.0
OTAGO	6.2	91.3	25.7	50.8	16.9	48.2	30.3	19.5	42.3	24.0
SOUTHLAND	1.0	2.0	1.2	5.0	5.1	24.5	3.0	4.4	15.2	10.0

Source: Statistics NZ, NZIER


University of Waikato Tauranga Campus, Tauranga

BUILDING COSTS

The Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) (the Index) is an official measure of cost movements in the sector. The Index excludes GST. We use the Index as an indicator of cost escalation.

The Index is a national average across all building types. We therefore advise caution in applying the increase in the CGPI-NRB as an indicator of cost escalation for specific projects.

The Rider Levett Bucknall Fourth Quarter 2018 Oceania Report provides local regional comment and tender price relativity between the main New Zealand and Australian centres. This publication is available at www.rlb.com or on request from any Rider Levett Bucknall office.

We forecast construction cost inflation to ease below 4 percent over the second half of 2019 before moderating to just over 3 percent by the end of 2023.

FIGURE 7

Non-residential building cost escalation

CGPI-NRB index, annual % change

Source: Statistics NZ, NZIER forecasts

TABLE 2

Non-residential building cost index

YEAR	QUARTER	INDEX	QUARTERLY % CHANGE	ANNUAL % CHANGE
2014	MARCH	1415	0.8	3.7
	JUNE	1432	1.2	4.4
	SEPTEMBER	1444	0.8	4.3
	DECEMBER	1460	1.1	4.0
2015	MARCH	1474	1.0	4.2
	JUNE	1484	0.7	3.6
	SEPTEMBER	1498	0.9	3.7
	DECEMBER	1507	0.6	3.2
2016	MARCH	1519	0.8	3.1
	JUNE	1533	0.9	3.3
	SEPTEMBER	1553	1.3	3.7
	DECEMBER	1591	2.4	5.6
2017	MARCH	1601	0.6	5.4
	JUNE	1618	1.1	5.5
	SEPTEMBER	1635	1.1	5.3
	DECEMBER	1656	1.3	4.1
2018	MARCH	1670	0.8	4.3
	JUNE	1689	1.1	4.4
	SEPTEMBER	1711	1.3	4.6
	DECEMBER	1731	1.2	4.5
2019	MARCH	1747	0.9	4.6
	JUNE	1762	0.8	4.3
	SEPTEMBER	1777	0.9	3.8
	DECEMBER	1793	0.9	3.6
2020	MARCH	1808	0.9	3.5
	JUNE	1823	0.9	3.5
	SEPTEMBER	1839	0.9	3.5
	DECEMBER	1855	0.9	3.5
2021	MARCH	1871	0.9	3.5
	JUNE	1888	0.9	3.5
	SEPTEMBER	1904	0.9	3.5
	DECEMBER	1921	0.9	3.6
2022	MARCH	1937	0.8	3.5
	JUNE	1953	0.8	3.4
	SEPTEMBER	1969	0.8	3.4
	DECEMBER	1984	0.8	3.3
2023	MARCH	2000	0.8	3.3
	JUNE	2016	0.8	3.2
	SEPTEMBER	2032	0.8	3.2
	DECEMBER	2046	0.7	3.1

Notes: The current and forecast CGPI-NRB is a national average, which does not differentiate between regions or building types. We therefore advise caution in applying the increase in the CGPI-NRB as a measure of cost escalation for specific building projects.

Source: Statistics NZ, NZIER forecasts

RIDER LEVETT BUCKNALL OFFICES

For further information please contact Grant Watkins +64 4 384 9198 or your nearest Rider Levett Bucknall office.

New Zealand

Auckland	+64 9 309 1074
Christchurch	+64 3 354 6873
Hamilton	+64 7 839 1306
Palmerston North	+64 6 357 0326
Queenstown	+64 3 409 0325
Tauranga	+64 7 579 5873
Wellington	+64 4 384 9198

RLB.com

AFRICA | AMERICAS | ASIA | EUROPE | MIDDLE EAST | OCEANIA

Rider Levett Bucknall