



Department of  
Building and Housing  
*Te Tari Kaupapa Whare*

## **Building and Housing Trends: January to March 2009**



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## Introduction

This *Building and Housing Trends* reports sector activity for the period from 1 January to 31 March 2009 plus the latest information available at the time of writing (up to June 2009). Preparing this report reflects our aim of developing and improving access to building and housing sector-related information and knowledge.

Information in this report is drawn from accessible information and forecasts from: Statistics New Zealand, Ministry of Social Development, Department of Labour, Reserve Bank of New Zealand and the New Zealand Treasury, the Real Estate Institute of New Zealand (REINZ), Quotable Value Limited and Housing New Zealand Corporation. Some of the information and data has been developed by the Department of Building and Housing (the Department) from our databases and other internal information, as well as work commissioned around current trends and impacts.

This is the final time the Trends Report will be published in this format. Feedback from users has led to a new publication approach being taken from the next issue (at the end of September 2009, covering the April to June 2009 quarter). Over the next few months we will be moving to a web-based format where information is updated as it becomes available – allowing users to access up-to-date information on the areas that interest them. Every quarter a summary report will be provided as a short précis, very similar to the Executive Summary in the current report.

# Executive summary

## *The economy*

The general economy continues to contract, both within New Zealand and globally. Forecasts from the Reserve Bank, Treasury, banks and other agencies for both the sector and the wider economy have again been revised downwards since the last quarter, although most forecasts expect the economy to have reached or be near the bottom. It is too early to recognise any impact of the Government's stimulus package, but recovery is expected to be long, slow and shallow until the 2010-2011 year.

There is a mixed story in the building and construction sector. There are some encouraging signs of recovery: house prices are falling less steeply (by 2.2 percent in the year to May 2009, compared with the recent worst annual fall of more than 6 percent in September 2008); the number of house sales has increased; and houses are selling more quickly. Net annual immigration figures also remain strong, at over 9,000 which will increase demand for housing.

However, the immediate outlook remains challenging: some forecasters think the apparent recent recovery in the housing market is unlikely to last, as it may be primarily the effect of lowered interest rates. Long-term mortgage rates have since risen sharply; unemployment is expected to rise further over the next few quarters, undermining confidence for potential buyers and forcing more sales; credit remains tight; and business confidence in the sector, although showing a slight increase, remains low and anticipates a worsening in the sector in the short term.

## *Sector activity*

Sector activity continues to fall, but appears to be flattening. The value and volume of all building work fell during the March 2009 quarter (with a decrease in consent values of 16.0 percent over the year to March), and the trend continues downward, but more slowly. Residential building continued to fall in volume and value, and while the (unadjusted) value of non-residential building work was still high in the March quarter, the trend for that is also now declining. Building consents are also trending down, despite recent increases in monthly consents. This lowered level of building will create future pressure, with an expectation of inadequate supply to meet emerging housing needs over the next few years.

Although the March 2009 quarter showed more people employed in the sector, they are employed for fewer hours in total: the number of paid hours worked in the sector is down by over 9 percent compared with same time in 2008, and, with less building work, this is likely to drop further. Perhaps due to these lower employment prospects, a net 922 people employed in construction and building-related trades left New Zealand in the year to April 2009. If, as is forecast, these falls or low levels of employment continue beyond the near term, there is a likelihood that the sector will lack the necessary capacity and skill level to respond effectively to the upturn in the market when it occurs.

Capital, production and labour costs continue to rise slowly, and industry leaders think this will continue. Residential construction costs rose by 1.9 percent in the year to March 2009 compared with 5 percent the previous year; non-residential by 1.5 percent compared with 2.3 percent the previous year.

## *Government housing assistance*

Government housing assistance rose in March 2009 with nearly 33,000 more people receiving an accommodation supplement and 680 more households receiving an income-related rent than in March 2008. There was an increase in Housing New Zealand Corporation high priority waiting lists (Priority 'A' and 'B'), with 4,124 applicants in May 2009; 4.9 percent more than in May 2008, continuing the climbing trend that started in June 2007. Average waiting times increased for both priority 'A' applicants (up from 38 days in May 2008 to 51 days in May 2009), and priority 'B' (from 163 days in May 2008 to 194 days in May 2009).

## The economy

*Economy continues to slow, forecasts again revised down from last quarter, recovery to be long and slow*

- New Zealand experienced a fifth consecutive quarter of contraction in economic activity when GDP fell by 1.0 percent in the March 2009 quarter.
- Construction industry activity (value added) fell by 8.9 percent in real terms in the year to the March 2009 quarter<sup>1</sup>, compared with a 0.4 percent fall in the year to the March 2008 quarter.
- Investment forecasts were once more revised down. The Reserve Bank expects that in the year to March 2009, real investment will have fallen by 9.2 percent, real residential investment by 26.8 percent, real business investment by 4.1 percent, and real government sector investment by 9.7 percent.
- Forecasts are for a long, slow economic recovery, with another year of contraction followed by weak growth until 2014.
- There was a net immigration of 9,176 people in the year to April 2009, close to the figure of 10,000 on which housing demand forecasts are predicated.

*More people employed in construction but for fewer hours than at the same quarter of 2008; hours expected to continue to fall*

- The Household Labour Force Survey estimates that 182,900 people were employed in the construction industry in the March 2009 quarter. This is 3.3 percent higher than the March 2008 quarter.
- The Quarterly Employment Survey showed that the number of paid hours in the construction industry fell 10.8 percent (4.47 billion hours) for the March 2009 quarter compared with the same quarter in 2008.
- There was a net migration loss of building and construction workers of 922 workers in the year to April 2009, 32.3 percent more than the previous year
- The low numbers of building consents issued in the last few months are expected to have a negative impact on sector employment figures for coming quarters. Building industry leaders expect the levels of employment in the industry to fall in the next few quarters.

*Low inflation in the housing sector continues; rents remain stable*

- Inflation in the housing sector has dropped to 3.6 percent in the year to March 2009, considerably lower than the 5.1 percent in the year to March 2008.
- Inflation for home ownership (measured by the new housing price index) was 2.2 percent in the year to March 2009, falling from 5.7 percent in the year to March 2008.
- Actual rents increased by 2.1 percent in the year to March 2009, compared with 3.0 percent in the year to March 2008.

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<sup>1</sup> The 'year to the [month] quarter' indicates year-on-year quarterly data is being reported. 'Year to [month]' is used when reporting annual data.

## The building sector

*Value of all building work fell, led by residential building work; and trend continues down*

- The unadjusted value of all ‘building work put-in-place’ in the March 2009 year was \$12,133 million, down 11.1 percent from the previous year, of which residential building work was 56.4 percent.
- Falling price-adjusted trend values for all ‘building work put-in-place’ have continued during the quarter to March 2009, with a decrease of 15.6 percent from the March 2008 quarter.

*Residential building volume and value continues to fall*

- The unadjusted value of all residential building work put in place in the March 2009 quarter shows a drop of 24.9 percent from the same quarter in 2008.
- Trend values for residential building work for the quarter to March 2009 have decreased by 5.9 percent against the previous quarter, and by 26.8 percent against the same quarter in 2008.
- The number of building consents authorised for new dwellings continues a downward trend following the peak in June 2007. The number of consents for new dwelling units (including apartments) authorised in the quarter to March 2009 was 42.9 percent lower than in the same quarter in 2008.

*Value of non-residential building work still showing slight growth in the March quarter, but the trend is now declining, following the downward trend for non-residential consents*

- The unadjusted value of non-residential building consents issued increased by 6.3 percent in the year to March 2009 to \$4.564 billion. The largest increases were in ‘offices and administration buildings’ and ‘educational facilities’. The largest falls were in ‘shops, restaurants and taverns’.
- Trend values for non-residential building consents have been falling steadily since August 2008; the May 2009 trend figure was 13.8 percent lower than that for May 2008. Note that we cannot be sure this represents a steady decline until more data is available later this year.

*Capital, production and labour costs continue to rise*

- The Capital Goods Price Index, in the year to March 2009, measured price increases of 1.9 percent for residential building, 1.5 percent for non-residential building and 6.4 percent for other construction. This compares with an overall CGPI of 4.9 percent.
- The Producers Price Index for construction industry inputs for the year to the March 2009 quarter increased 5.4 percent, compared with 49.7 percent for all industries.
- Labour costs (as measured by the Labour Cost Index) increased in the year to March 2009 by 3.4 percent for building trade workers, and 3.5 percent for the construction industry generally; compared with the increase of 3.3 percent for all industries and occupations combined.

## The housing sector

*House prices continued to fall but less steeply than in late 2008*

- The housing market is continuing to show decreasing prices, but higher activity levels.
- REINZ report the median house price for the whole of New Zealand fell by 2.2 percent from \$345,000 in May 2008 to \$337,500 in May 2009. This followed drops of 1.5 percent in the year to April, 4 percent in the year to March and 2.2 percent in the year to February 2009.
- The median house price for Auckland grew by 0.6 percent in the year to May 2009; reversing the downward trend of the previous two quarters.

*Volume of house sales up compared with same time last year, and houses are taking less time to sell*

- REINZ report that there were 6,694 house sales during the month of March 2009. This is an increase of 30.5 percent on March 2008, and could be another indication that the housing market is levelling.
- The climbing trend continued with the number of sales increasing by 39 percent in April 2009 and 43.9 percent in May 2009 compared with the same periods of 2008.
- The median number of days taken to sell a property in May 2009 was 42 days, shorter than the 49 days it took in May 2008. The days to sell figures compared with the same month in the previous year had been increasing since August 2007; the April and May 2009 figures have reversed this trend.
- Moving into the June 2009 quarter, the increasing annual trend of duration to sell is reversing: decreasing by 4.5 percent (to 42 days) in the April year and by 14.3 percent (to 42 days) in the year to May.

*Government housing assistance rose, numbers of applicants for government housing grew, and the time to house people on the lists increased*

- Government assists low-income families into affordable housing mainly through the Accommodation Supplement (AS) and Income-Related Rents (IRR). At the end of March 2009, there were 274,620 AS recipients and 60,327 IRR tenants; compared with the figures for March 2008 of 241,876 and 59,647 respectively.
- Total government housing assistance in the March 2009 quarter was \$375.7 million, 9.9 percent more than the \$342 million provided in the March 2008 quarter.
- The proportion of IRR tenants not receiving a benefit fell from 21.3% to 20.7% during the March 2009 quarter
- The number of people on the Housing New Zealand Corporation Priority A (“severe and persistent housing needs that must be addressed immediately”) and B (“significant and persisting housing need”) waiting lists for housing increased by 4.9 percent between May 2008 and May 2009. Of these, the A waiting list decreased by 3.1 percent between February and May 2009, and by 9.0 percent since May 2008. The B list increased by 0.2 percent between February and May 2009, an increase of 5.9 percent compared with May 2008.
- The data shows a slow increasing demand for Housing New Zealand Corporation properties, slightly beyond what can be met in the short term. The average waiting time for

people on the A priority waiting list reduced by 7.3 percent from 55 days to 51 days between February and May 2009; although this was an increase of 37.8 percent compared with May 2008. At the same time, the waiting time for B priority applicants increased by 2.6 percent, from 189 days in February to 194 days in May 2009, a 19.0 percent increase since May 2008.

- Tenancy bond data shows a levelling off in growth of average weekly rents for new private rental tenancies. In May 2009, the average weekly rent was \$228 for one-bedroom flats, \$286 for two-bedroom flats, \$271 for two-bedroom houses, \$322 for three-bedroom houses and \$416 for four-bedroom houses.

# The economy

## Economic growth and industry outputs

*Economy continues to slow, forecasts again revised down from last quarter, recovery to be long and slow*

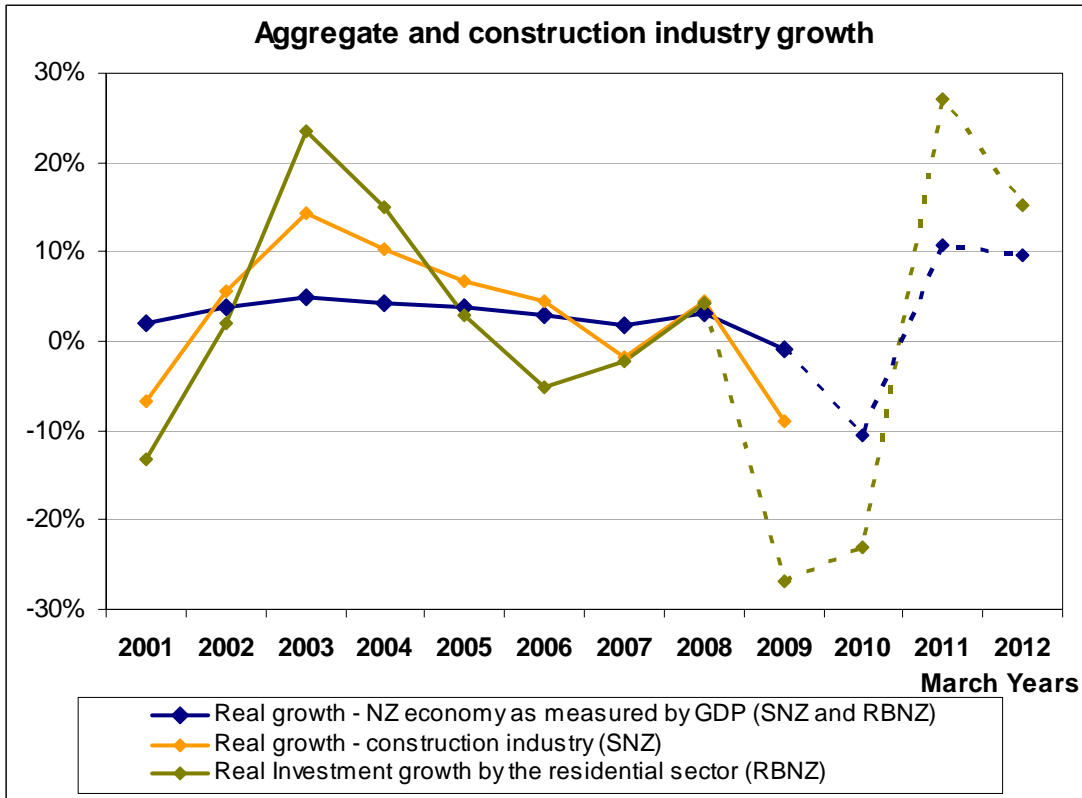
New Zealand recorded a fifth consecutive quarter of contraction in economic activity when GDP fell by 1.0 percent in the March 2009 quarter. This followed a 1.0 percent fall in the December 2008 quarter, a 0.5 percent fall in the September 2008, and a 0.2 percent fall in the June 2008 quarter.

The annual value of construction industry activity fell every quarter of 2008. It fell by 0.4 percent (revised) in the year to the March 2008 quarter; another 5.5 percent in the year to the June 2008 quarter; fell again by 8.1 percent in the year to the September 2008 quarter; leading to a decrease of 13.5 percent in the year to the December 2008 quarter. This contrasts sharply with the increase of 7.2 percent in the year to the December 2007 quarter. The decline in the December quarter, driven by a fall in residential building and construction trade services, was partly offset by an increase in non-building construction.

In its June 2009 Monetary Policy Statement, the Reserve Bank revised its forecasts downwards, predicting that real investment (as measured by inflation-adjusted Gross Fixed Capital Formation) would be found to have decreased by 9.2 percent in the year to March 2009. Over this period, real residential investment was expected to have fallen by 26.8 percent, real business investment to fall by 4.1 percent, and real government sector investment to fall by 9.7 percent.

Forecasts are for a long, slow economic recovery. NZIER predict another year of contraction in the March 2010 year (-1.5%) followed by a slow recovery averaging 3.5% over the following four years to 2014; while the Reserve bank forecasts negative or weak growth continuing for the next few quarters, before beginning to expand, but remaining weak through until the end of the forecast period at 2012.

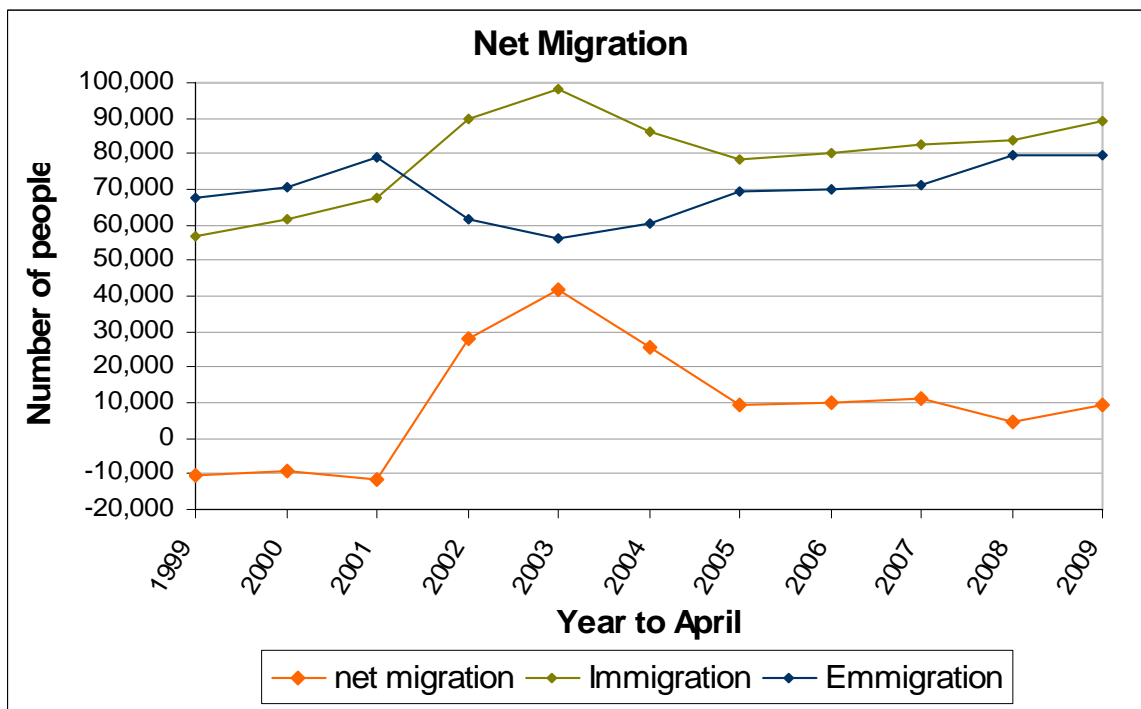
**Figure 1: Aggregate and construction industry growth**



Source: Reserve Bank and Statistics New Zealand

Migration to New Zealand continues steady. There was a net immigration of 9,176 people in the year to April 2009, 97.7 percent more than for the year to April 2008, but 18.2 percent less than the year to April 2007. However, it appears that the annual net migration gain has returned to close to the figure of 10,000 on which housing demand forecasts are predicated.

**Figure 2: Net Migration**

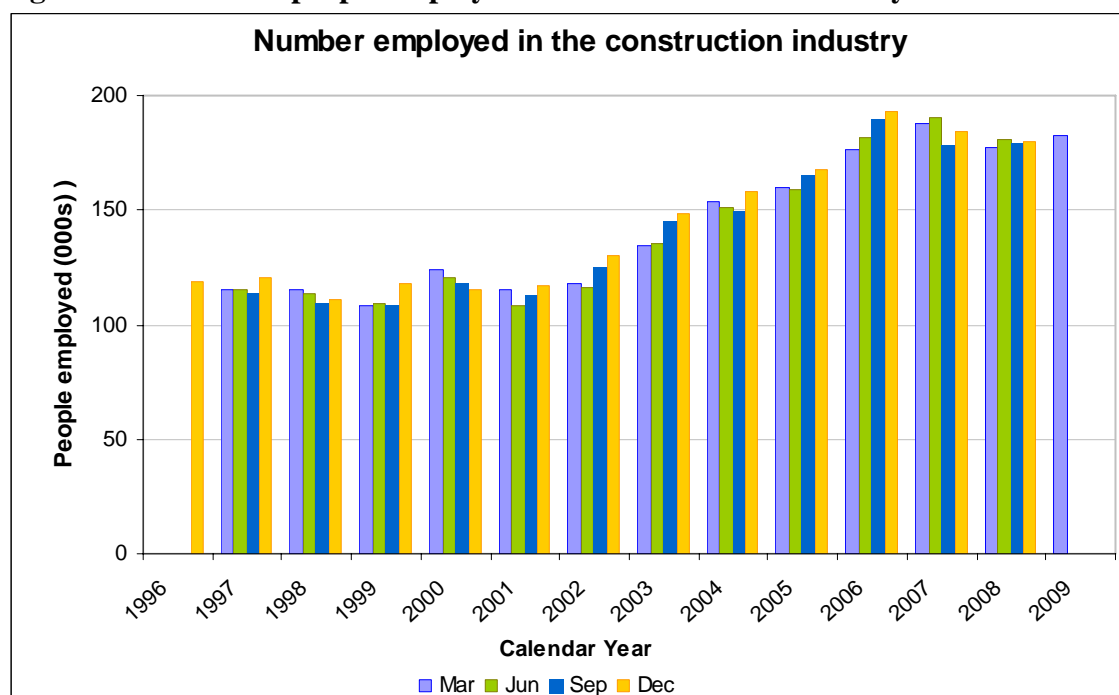


## Labour market

*More people employed in construction but for fewer hours than at the same quarter of 2008*

The low numbers of building consents being issued in recent months is flowing through to impact on sector employment after a period of strong growth that peaked at 193,200 people employed in the December 2006 quarter. Although the March 2009 quarter Household Labour Force Survey (HLFS) figures of 182,900 people employed in construction was 3.3 percent higher than the 177,000 employed in the March 2008 quarter, the number of paid work hours shown by the Quarterly Employment Survey (QES) fell by 10.8 percent from 4.47 billion hours to 3.99 billion hours over the same period, indicating an underlying weakness in the construction industry labour market.

**Figure 3: Number of people employed in the construction industry**



Source: Statistics New Zealand, HLFS

There has also been net migration from New Zealand of people employed in construction and building-related trades<sup>2</sup>, with a net loss of 922 building and construction workers in the year to April 2009, 32.3 percent more than the net loss of 697 sector workers in the previous year; this continues a substantial turnaround from net inflow to net outflow that has been evident since early 2007.

The continuing low level of employment and increase in the departure of building workers overseas increases the risk that the sector will lack the necessary capacity and skill level to respond effectively to any upturn in the market that may occur in late 2009 or early 2010.

<sup>2</sup> Includes the QES categories: 'Building Frame & Related Trades Workers'; 'Building Finishers & Related Trades Workers', and 'Building & Related Workers'.

# Cost of purchase of new housing and renting

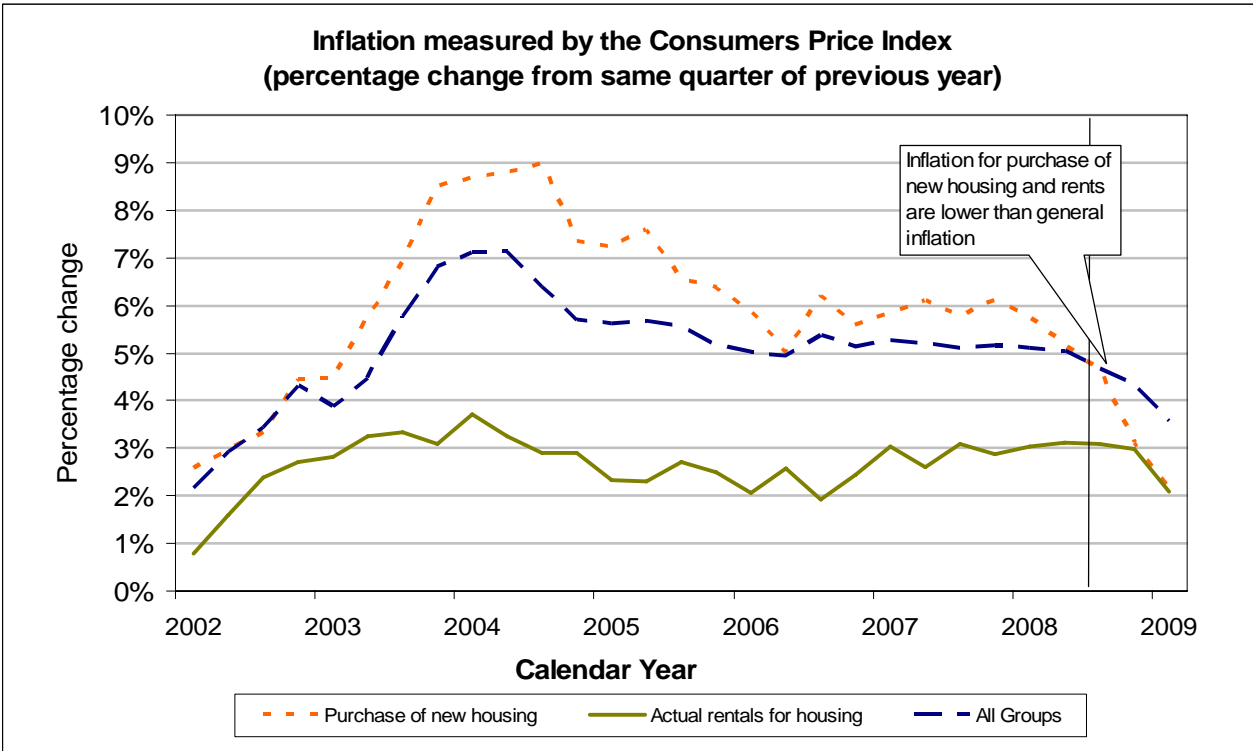
*Low inflation in the housing sector continues; rents remain stable*

Inflation in the housing sector is largely measured by movements in the ‘housing and household utilities’ group<sup>3</sup> of the Consumer Price Index (CPI), and had been steady at about 5 percent per annum since the December 2005 quarter. However, housing sector inflation has recently slowed, and increased only 0.3 percent in the March 2009. This followed increases of 0.6 percent in the December 2008 and 1.4 percent in the September 2008 quarters. This has brought the whole-year sector inflation rate down to 3.6 percent in the year to March 2009 from 5.7 percent in the year to March 2008.

Annual inflation in the price of new housing has slowed since the March 2008 quarter. The March 2009 CPI data showed the increase in the price of new housing was 2.2 percent in the year to March 2009 compared with 5.8 percent in the year to March 2008.

Similarly, annual inflation for actual rents for housing has slowed since the June 2008 quarter. The increase in rent was 2.1 percent in the year to March 2009, compared with 3 percent in the year to March 2008. As shown in Figure 4, both annual inflation for new housing and rent have been tracking below annual general price inflation (as measured by the CPI all groups) since the September 2008 quarter.

**Figure 4: Inflation measured by the Consumers Price Index**



Source: Statistics New Zealand

<sup>3</sup> This group includes price changes in renting and the purchase of new houses (but not existing houses) and related costs such as real estate agents’ fees, rates and utilities.

# The building sector

## All building activity

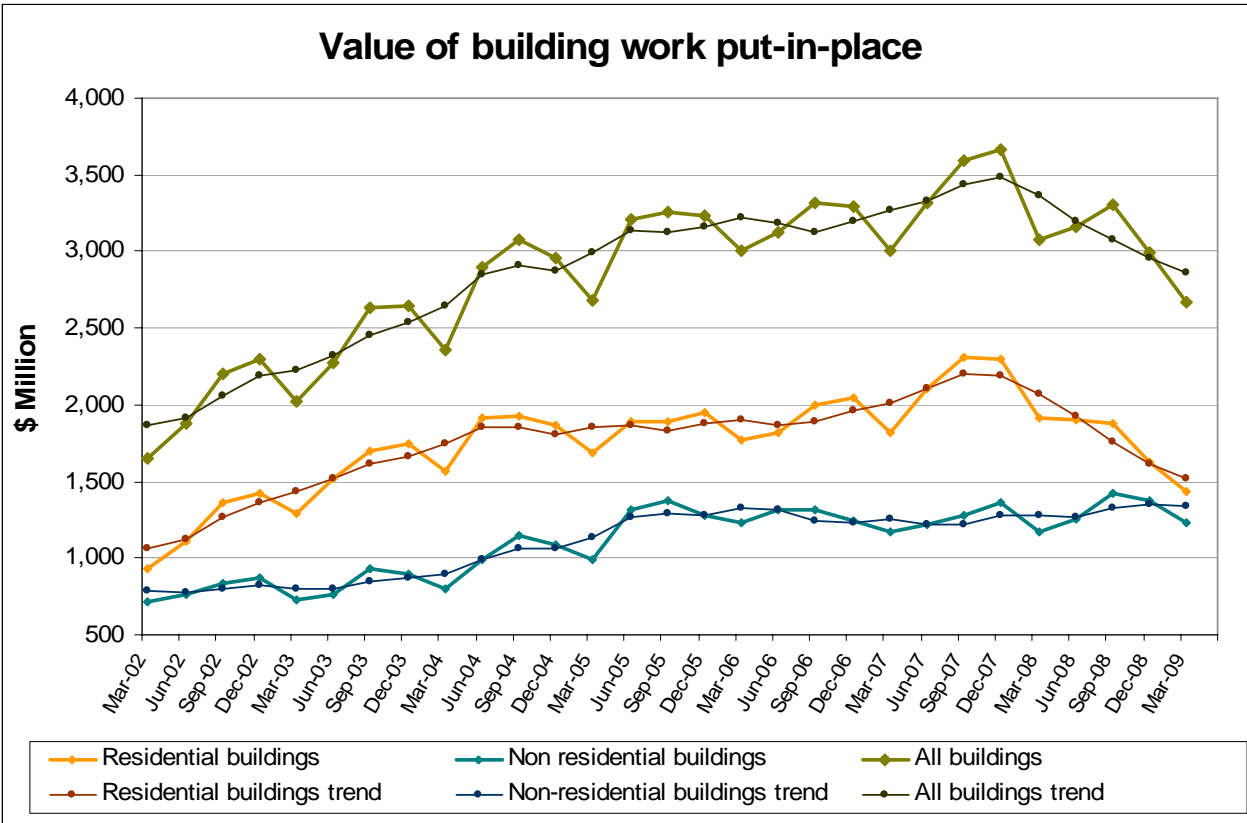
*Value of all building work fell, led by residential building work; and trend continues down*

Statistics New Zealand’s quarterly data on ‘building work put-in-place’ puts an estimated gross dollar value on actual building work performed on residential and non-residential buildings.

Figure 5 shows that the trend for the value of all ‘building work put-in-place’<sup>4</sup> has been generally rising and reached a high point in the December 2007 quarter. Since then there has been a fairly steep downwards trend which has continued into the latest March 2009 quarter. Falling price-adjusted trend values<sup>5</sup> for all ‘building work put-in-place’<sup>6</sup> have continued during the quarter to March 2009, with a decrease of 3.1 percent from the December quarter, and a 15.6 percent decrease compared with the March 2008 quarter

The total unadjusted value of all ‘building work put-in-place’ in the March 2009 year was \$12,133 million, down 11.1 percent from the previous year. Inflation adjusted, the total value for the year was \$8,224; a fall of 13.1 percent from the previous year. The contribution of residential building work was 56.4 percent in the year to March 2009, which was down from 63.2 percent in the year to March 2008.

**Figure 5: Value of building work put-in-place**



Source: Statistics New Zealand

<sup>4</sup> The price adjusted value of building work put-in-place has been used in this report until the current March 2009 quarter issue where it is now replaced by the nominal value of building work put-in-place to allow for a more direct comparison between the value of building work put-in-place and value of building consents.

<sup>5</sup> Trend values exclude estimated seasonal fluctuations and short-term irregular movements.

<sup>6</sup> Statistics New Zealand’s ‘building work put-in-place’ is a quarterly estimate of the dollar value of construction on residential and non-residential building. This data provides information on building activity levels and complements building consent statistics.

## Residential building

*Residential building remains low in both volume and value<sup>7</sup>*

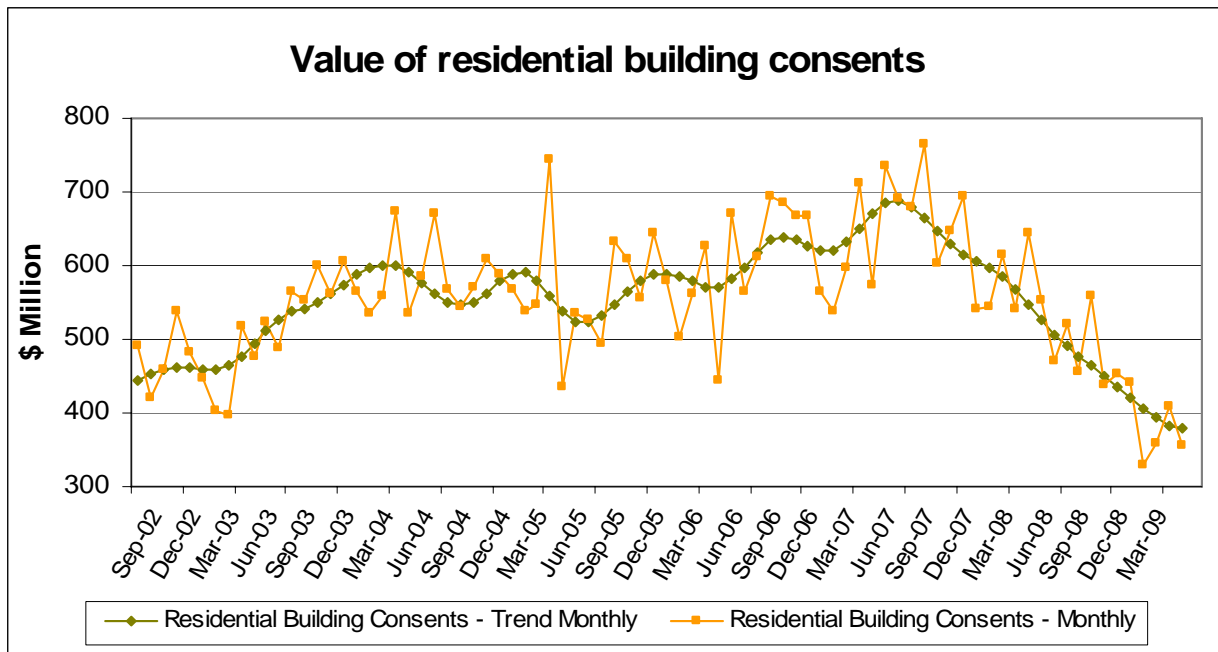
Trend values for residential building work put in place for the March 2009 quarter have decreased by 5.9 percent against the previous quarter, and by 26.8 percent against the same quarter of 2008, as shown in Figure 5. The value of residential building work put in place in the year to March 2009 shows a drop of 20.6 percent from the March 2008 year.

An indication of the volume of building work likely to occur in the future can be gained from monthly data on building consents granted by territorial authorities, obtained from Statistics New Zealand. It reflects consents valued at \$5,000 or more and is in current values.

The unadjusted value of all residential building consents issued<sup>8</sup> in the quarter to March 2009 was 35.6 percent lower than in the same quarter in 2008.

Statistics from May 2009 show the trend value of all residential building consents has been declining since its peak at \$687 million in June 2007 to \$385 million in May 2009, as shown in Figure 6.

**Figure 6: Value of residential building consents**



Source: Statistics New Zealand

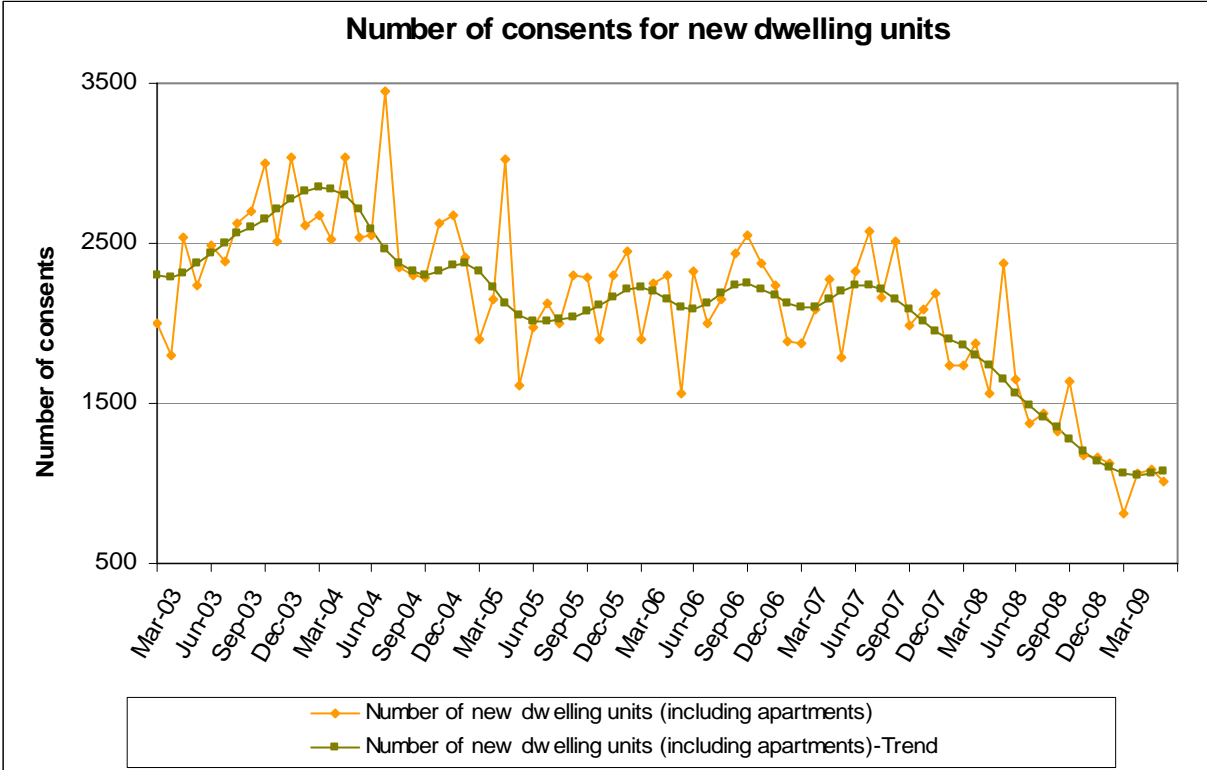
The number of new dwellings authorised has also fallen, continuing the downward trend since June 2007. As can be seen in Figure 7, this declining trend continued through to January 2009, when the unadjusted number of new dwelling (including apartments) authorised was 812, the lowest volume since the data series started in April 1965. The number of new dwellings authorised has since increased to 1,059 in February 2009, 1,091 in March 2009, 1,009 in April 2009 and 1,238 in May 2009. However, a total of 14,455 new dwellings authorised for the year

<sup>7</sup>

<sup>8</sup> New residential buildings including outbuildings, plus alterations and additions.

ended May 2009 is still 40.1 percent lower than in the year ended May 2008 and 56.5 percent lower than the previous peak of 33,251 in the year ended June 2004.

**Figure 7: Number of consents for new dwelling units**

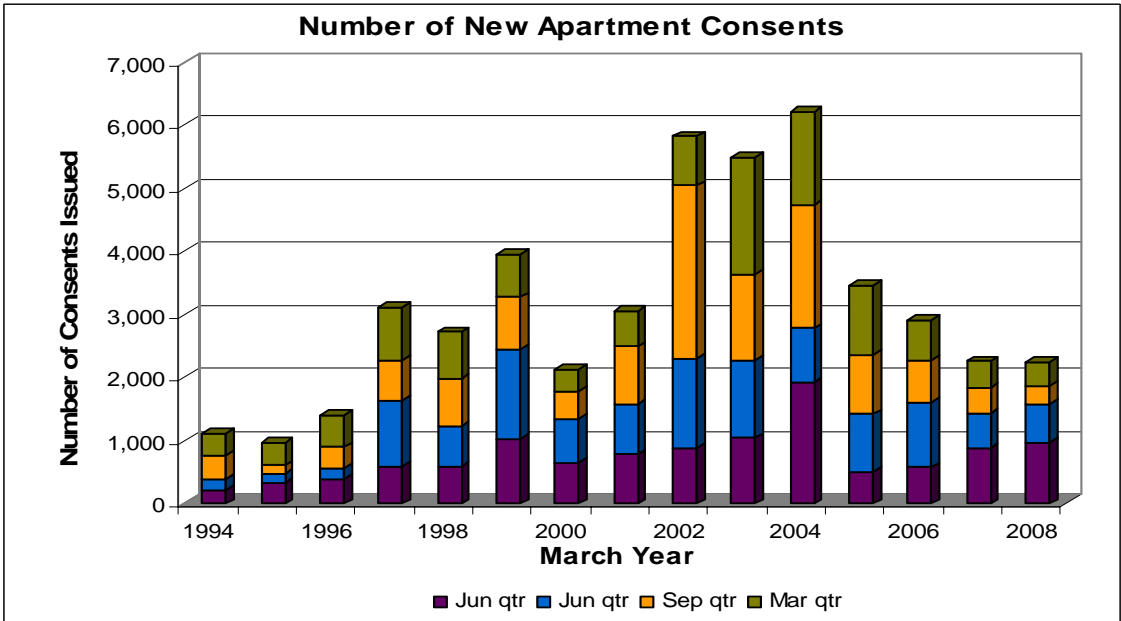


Source: Statistics New Zealand

The number of consents for apartment units can vary considerably from month to month. The number of new apartments authorised in the March 2009 quarter was 364 and this is 14.6 percent lower compared with the March 2008 quarter.

Of new dwellings authorised in the March 2009 quarter, 12.3 percent were apartments, approximating the monthly average of 12.5 percent for the previous 12 months.

**Figure 8: Number of new apartment consents**



Source: Statistics New Zealand

This reduction in building of dwellings will create pressure in the future as emerging housing needs create a greater demand than can be supplied.

## Non-residential building

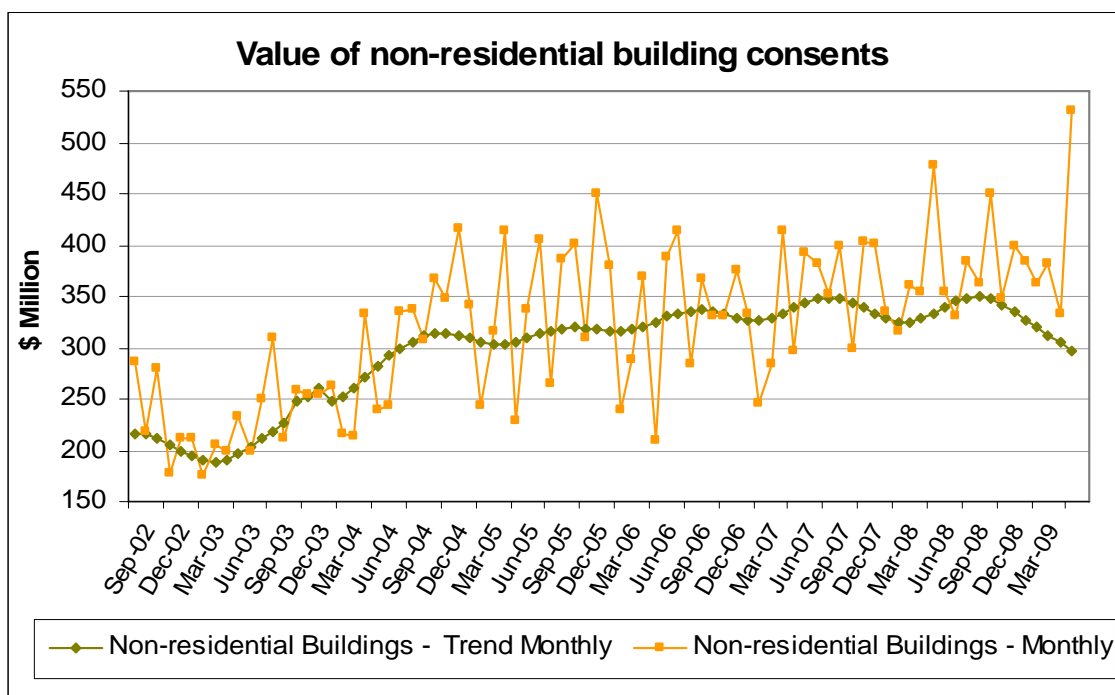
*Value of non-residential building work still showing slight growth in the March quarter, but the trend is now declining, following the downward trend for non-residential consents*

The trend value of non-residential building work put in place has been fairly level since March 2007; this continued in the March 2009 quarter (see Figure 5). The total unadjusted value of non-residential building work put in place for the March 2009 year was \$5.3 billion; a 5.2 percent increase from the previous March year; while the trend value rose by 5.7 percent over the same period.

The issuing of non-residential building consents provides an indication of future levels of non-residential building work. As shown in Figure 9, the unadjusted value of non-residential building consents issued increased by 6.9 percent in the year to May 2009 compared with the previous year. The largest percentage increases in value in the year to May 2009 were in the ‘hostels and boarding houses’ and ‘social, cultural and religious buildings’. The largest falls were in ‘hotels and other short-term accommodation’ and ‘storage buildings’. A total of \$4.7 billion worth of non-residential building consents were issued in the year ended May 2009.

However, as can be seen in Figure 9, the trend values for non-residential building consents have been falling steadily since August 2008; the May 2009 trend figure was 16.0 percent lower than that for August 2008, and 13.8 percent lower than that for May 2008. It appears therefore that non-residential building consents are now following a downward trend similar to that which appeared earlier in residential consents, though it won't be until August 2009 that we will be able to conclude that this is a solid downward trend.

**Figure 9: Value of non-residential building consents**



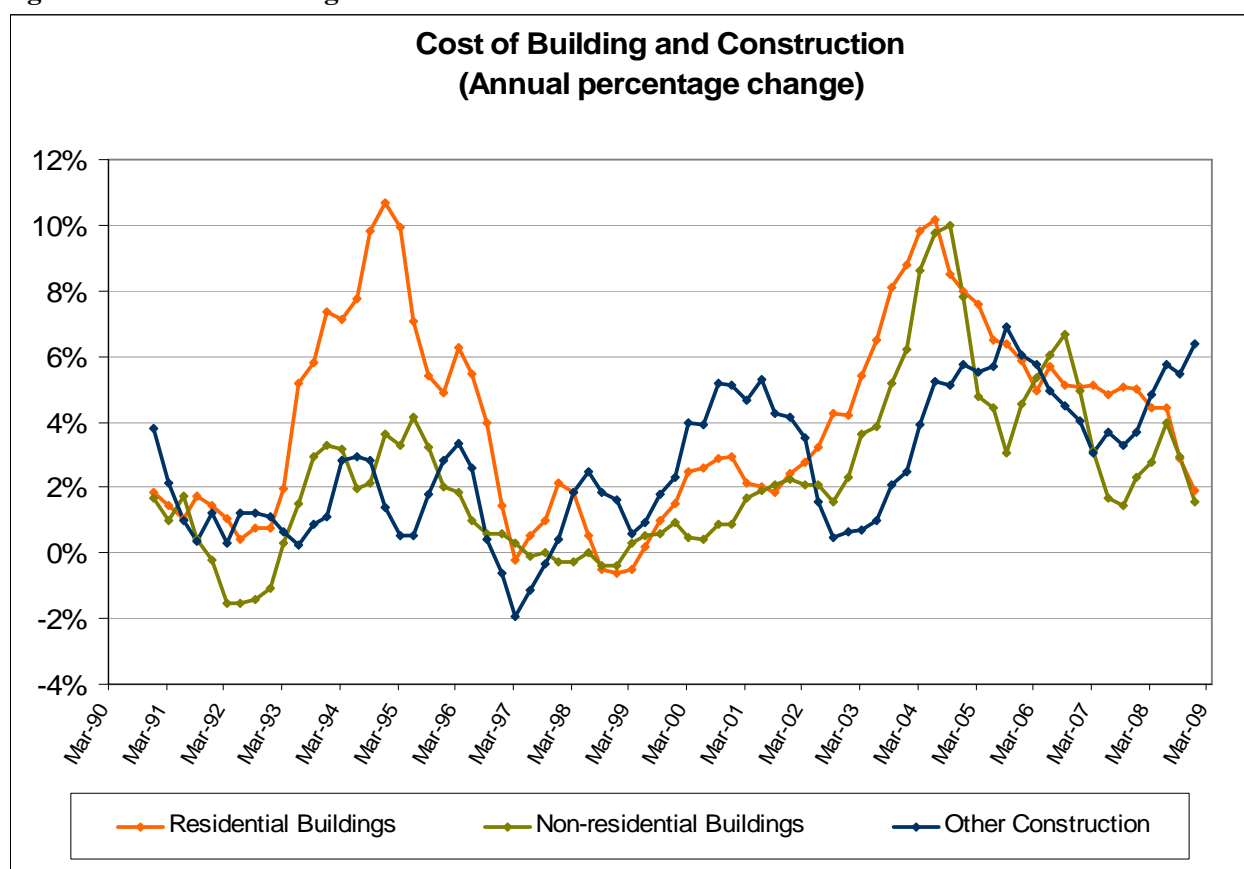
Source: Statistics New Zealand

## Building costs

*Capital, production and labour costs continue to rise*

The Capital Goods Price Index (CGPI) measures movements in price of various fixed capital assets in the economy. In the March 2009 quarter, the highest CGPI construction category increase from the same time last year was for construction other than buildings. In the year to March 2009, the CGPI increase for residential building was 1.9 percent, the increase for non-residential building was 1.5 percent, and the increase for other construction was 6.4 percent (Figure 10). The increase for the overall CGPI (that is, for all industries) in the same period was 4.9 percent.

**Figure 10: Cost of building and construction**



Source: Statistics New Zealand

Another cost indicator, the Producers Price Index (PPI), measures change in the levels of prices for the production sector of the economy. The PPI comprises output indices<sup>9</sup> (which measure change in prices received by producers) and input indices<sup>10</sup> (which measure changes in the cost of production, and exclude labour and capital costs).

<sup>9</sup> The PPI *output* indices cover the prices of primary products, manufactured goods, revenue from renting and leasing, the provision of services, capital work undertaken by own employees and margins on goods purchased for resale. The output indices exclude interest and dividends, royalties and patent fees, receipts from insurance claims, government cash grants and subsidies and GST and other indirect taxes.

<sup>10</sup> The PPI *input* indices cover the prices of materials, fuels and electricity, transport and communication, commission and contract services, rent and lease of land, buildings, vehicles and plant, business services, insurance premiums less claims. The output indices exclude wages and salaries (measured in the Labour Cost Index), capital expenditure (measured in the Capital Goods Price Index), ACC levies, land tax, government licence fees, road user charges, rates, royalties, patent fees and bad debts and donations.

The PPI input index for the construction industry increased by 5.4 percent in the year to March 2009. The PPI output index for the construction industry also rose by 3 percent in the year to March 2009.

In comparison, for the year to March 2009, the PPI input index all industries went up by 4.7 percent and the PPI output index for all industries went up by 6.5%.

The Labour Cost Index (LCI), which records changes in salary and wage rates, showed increases in the year to March 2009 of 3.5 percent for the construction industry generally and 3.4 percent for building trade workers. This may be compared with the increase in the year to March 2009 in the LCI for all industries and occupations combined, which was 3.3 percent.

# The housing sector

## Sales prices

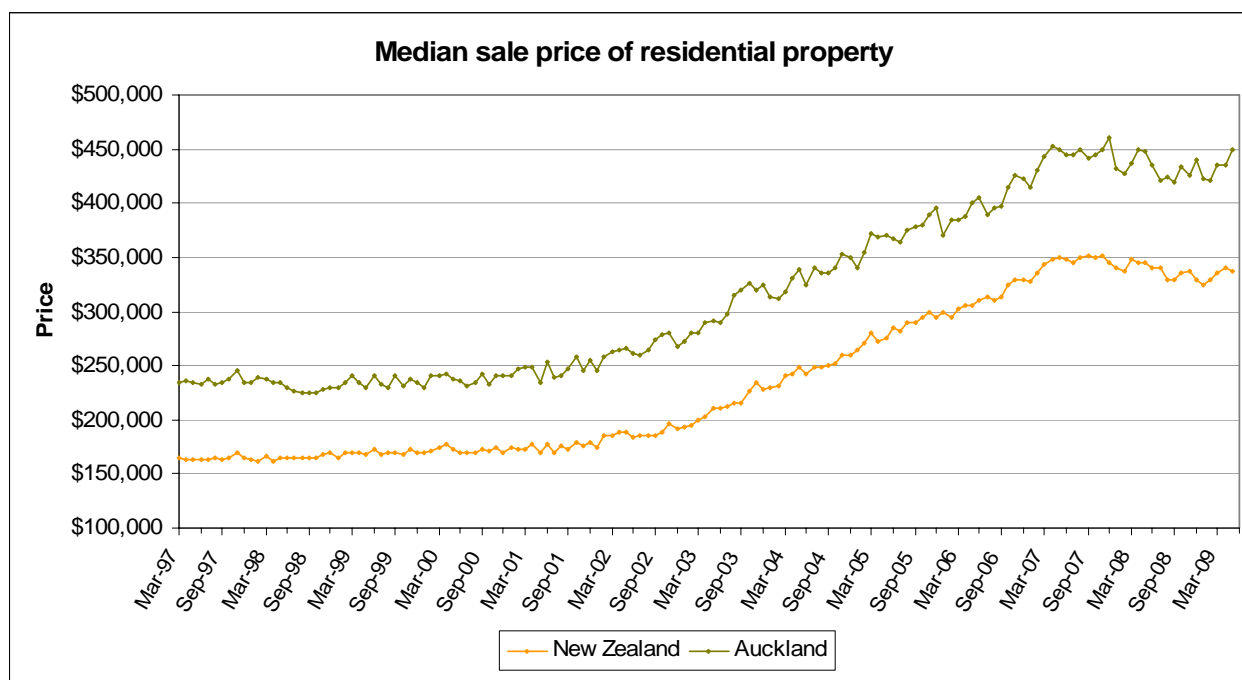
*House prices continued to fall but less steeply than in late 2008*

The housing market recorded higher activity levels in the recent months. According to REINZ, the median house price in New Zealand as a whole fell by 2.2 percent from \$345,000 in May 2008 to \$337,500 in May 2009, following drops of 1.5 percent in the year to April 2009, 4 percent in the year to March 2009 and 2.2 percent in the year to February 2009.

In Auckland, the median house price grew by 0.6 percent in the year to May 2009; reversing the downward trend shown by the falls in price of 3.3 percent in the year to April 2009, 0.6 percent in the year to March 2009 and 1.3 percent in the year to February 2009.

The monthly data for 2009 showed the degree of annual price decrease in April and May 2009 was smaller compared the range of a 4 to 6 percent in the latter part of 2008 and early 2009. If the shortage of stock for sale as suggested by REINZ continues, it is possible that house prices will remain relatively flat in the near term.

**Figure 11: Median sale price of residential property to May 2009**



Source: Real Estate Institute of New Zealand

The value of New Zealand's total housing stock<sup>11</sup> peaked at \$616 billion in the March 2008 quarter. However, the value of the housing stock has since decreased to \$592 billion in the June 2008 quarter, \$582 billion in the September 2008 quarter and most recently to \$568 billion in the December 2008 quarter. The annual rate of decrease in value was 7.5 percent from March 2008 to March 2009 quarters.

<sup>11</sup> RBNZ estimates: September 2008 (latest available)

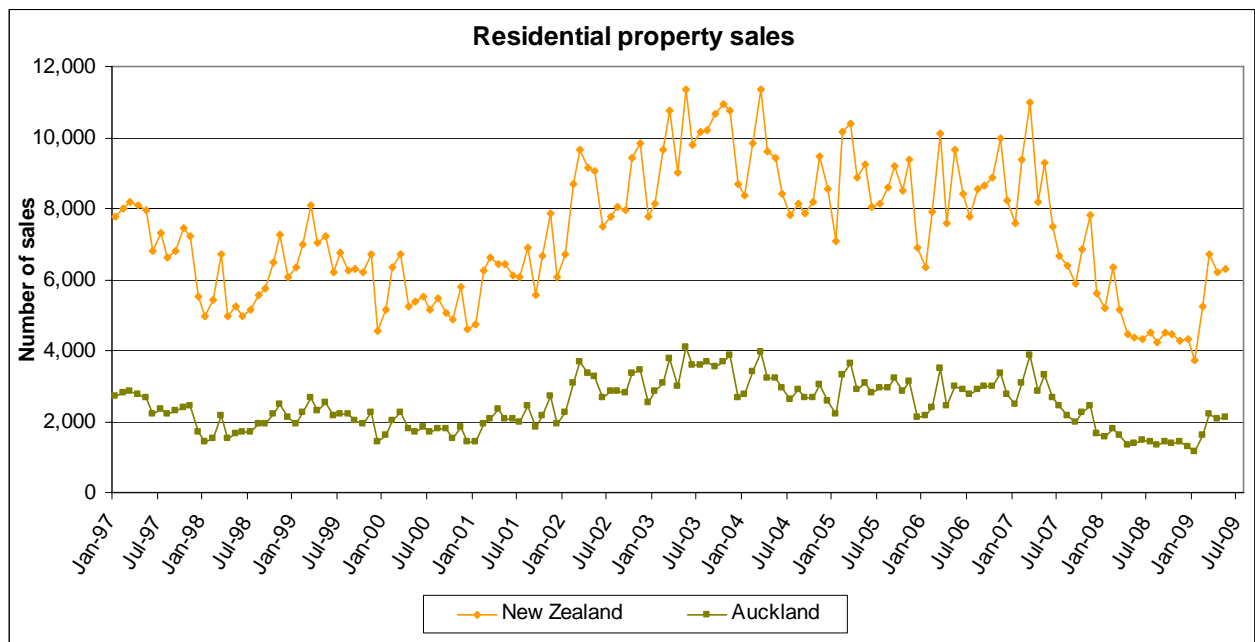
## Housing market activity

*Volume of house sales up compared with the same time last year since March 2009, and houses are taking fewer days to sell since April 2009*

Overall house sales activity was down by 28.5 percent in January 2009 and 17.8 percent in February 2009 compared with the same quarters last year. However, higher volume of sales of 30.5 percent for March 2009, 39 percent for April 2009 and 43.9 percent were recorded compared with the same months last year. As Figure 12 shows, the monthly number of house sales climbed higher from 2,706 in January 2009 to 5,228 in February 2009, 6,694 in March 2009, 6,210 in April 2009 and 6,291 in May 2009.

As with sales prices, above, the recent spike in sales volume could well be another possible indication that the housing market is levelling.

**Figure 12: Residential property sales**

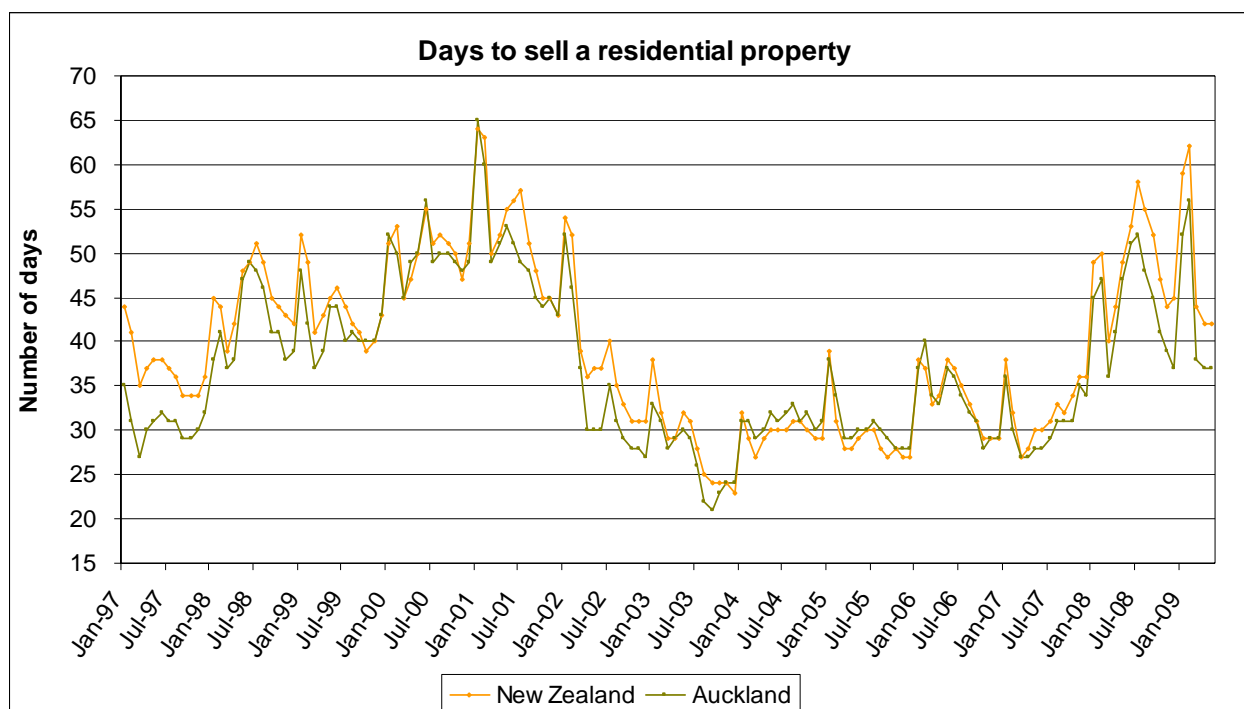


Source: Real Estate Institute of New Zealand

Figure 13 shows that the median time taken to sell a property in May 2009 was 42 days, shorter than the 49 days it took in May 2008. Since August 2007, the monthly days to sell figures have been longer than for the same month in the previous year until April 2009 where we saw this trend reversed.

In summary, how the housing market will perform in the near term will largely depend on a number of factors. These include listing volumes, mortgage interest rates, banks' lending policies unemployment rates and net migration numbers.

**Figure 13: Days to sell a residential property**



Source: Real Estate Institute of New Zealand

## Social housing assistance

*Government housing assistance remained constant, numbers of applicants for government housing grew, and the time to house people on the lists increased*

The two main ways<sup>12</sup> that the government assists low-income families into affordable housing are the Accommodation Supplement<sup>13</sup> (AS) and Income-Related Rents<sup>14</sup> (IRR). At the end of March 2009, there were 274,620 AS recipients and 60,522 IRR tenants.

Figure 14 shows government expenditure on social housing assistance as a percentage of total housing sector expenditure<sup>15</sup> from the September 2005 quarter to the March 2009 quarter.

<sup>12</sup> Note that a variety of homeownership assistance programmes such as Welcome Home Loans are not considered as part of these statistics, because they are relatively small compared with the IRR and the AS, and focus on homeownership rather than rent relief.

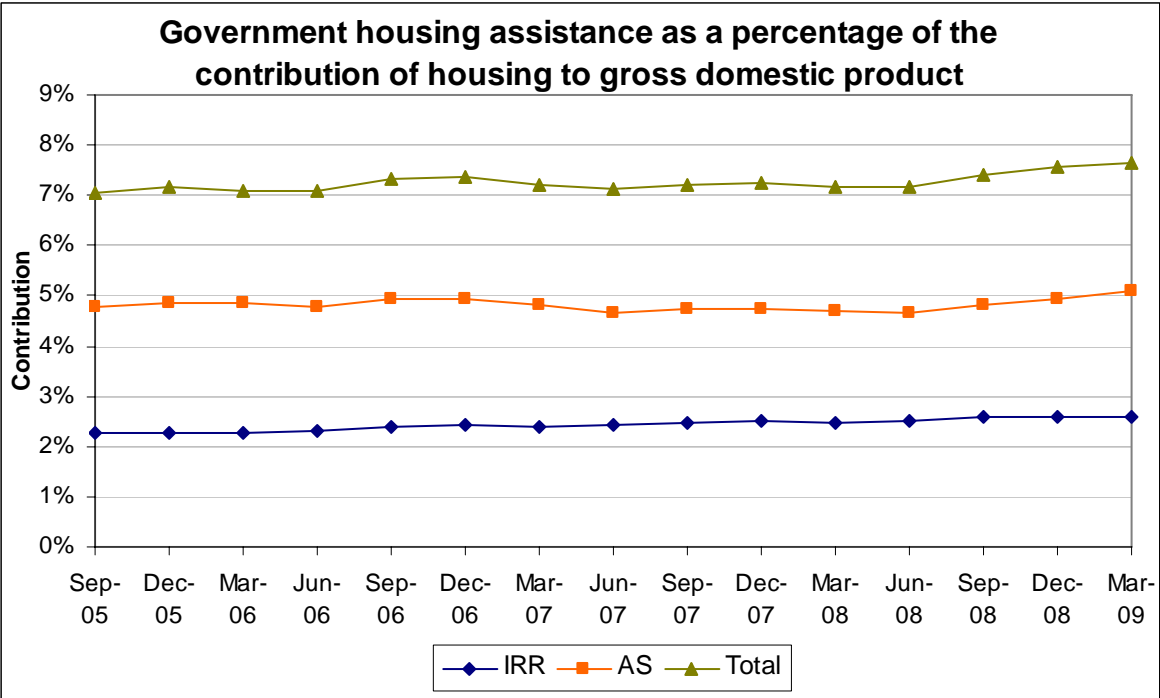
<sup>13</sup> The Accommodation Supplement is available through the Ministry of Social Development for people in private accommodation (i.e. not in social housing) who meet the income criteria. Recipients can then use the AS to offset some of the cost of their board, rent or mortgage payment.

<sup>14</sup> The Income-Related Rental Subsidy is paid to Housing New Zealand Corporation by the Government to subsidise the rent of Housing New Zealand Corporation tenants on low incomes (that is below the single living-alone rate of New Zealand Superannuation, after tax, for single tenants and below the married couple rate of New Zealand Superannuation, after tax, for all other tenants). Tenants in Housing New Zealand Corporation homes are not required to pay more than 25 percent of their income in rent. The marginal proportion rises to 50 percent for incremental amounts beyond the relevant rate of New Zealand Superannuation. The IRR subsidy compensates Housing New Zealand Corporation for the difference in the rent paid and the market rent on the property. As such, IRR is an indirect subsidy of social housing.

<sup>15</sup> Gross Domestic Product: Household consumption expenditure by purpose in actual current prices – Housing (series SNCQ.S2NP30CZE). Source: Statistics New Zealand.

The level of total government housing assistance as a percentage of total housing contribution to GDP remained unchanged at 7.6 percent between the December 2008 quarter and the March 2009 quarter. IRR assistance remained unchanged at 2.6 percent of total housing contribution to GDP between the December 2008 and March 2009 quarters. AS rose slightly from 4.9 percent to 5.1 percent of total housing contribution to GDP over the same period.

**Figure 14: Government housing assistance as a percentage of the contribution of housing to gross domestic product**

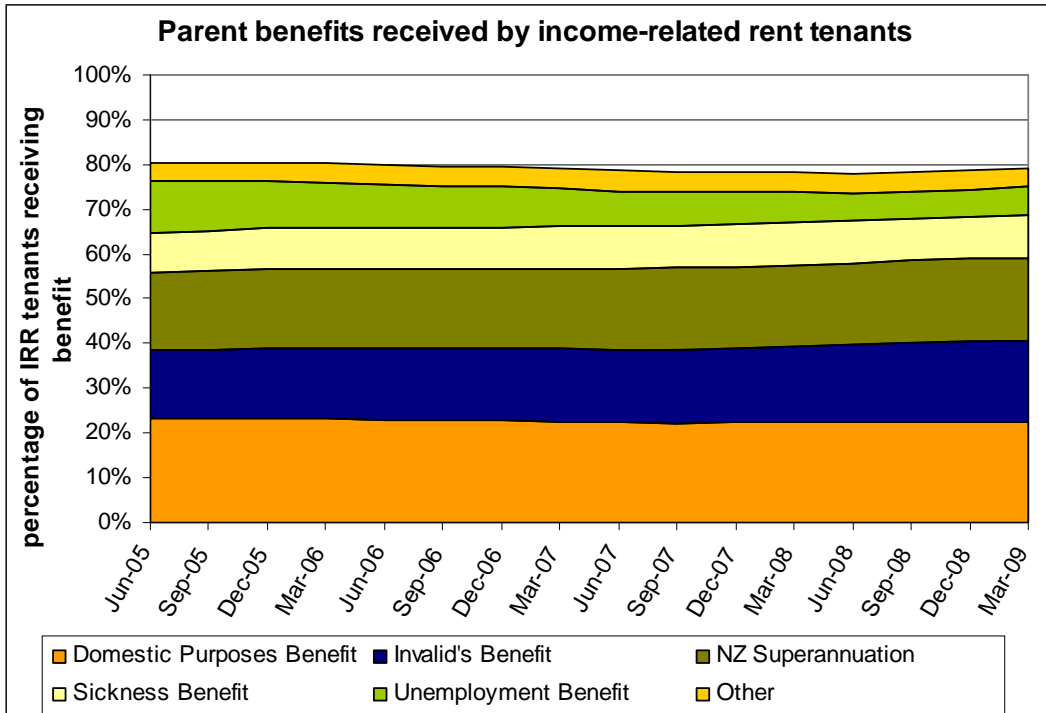


Source: Department of Building and Housing, Housing New Zealand Corporation, Ministry of Social Development and Statistics New Zealand

Total government housing assistance (as measured by IRR and AS) increased from \$360 million in the September 2008 quarter to \$369.9 million in the December 2008 quarter and to \$375.7 million in the March 2009 quarter. Total government housing assistance in the March 2009 quarter was 9.9 percent more than the \$342 million provided in the March 2008 quarter.

Over the March 2009 quarter, the proportion of IRR tenants not receiving a benefit fell from 21.3% to 20.7%. This was the only significant change in the composition of benefits for IRR tenants, as shown in Figure 15.

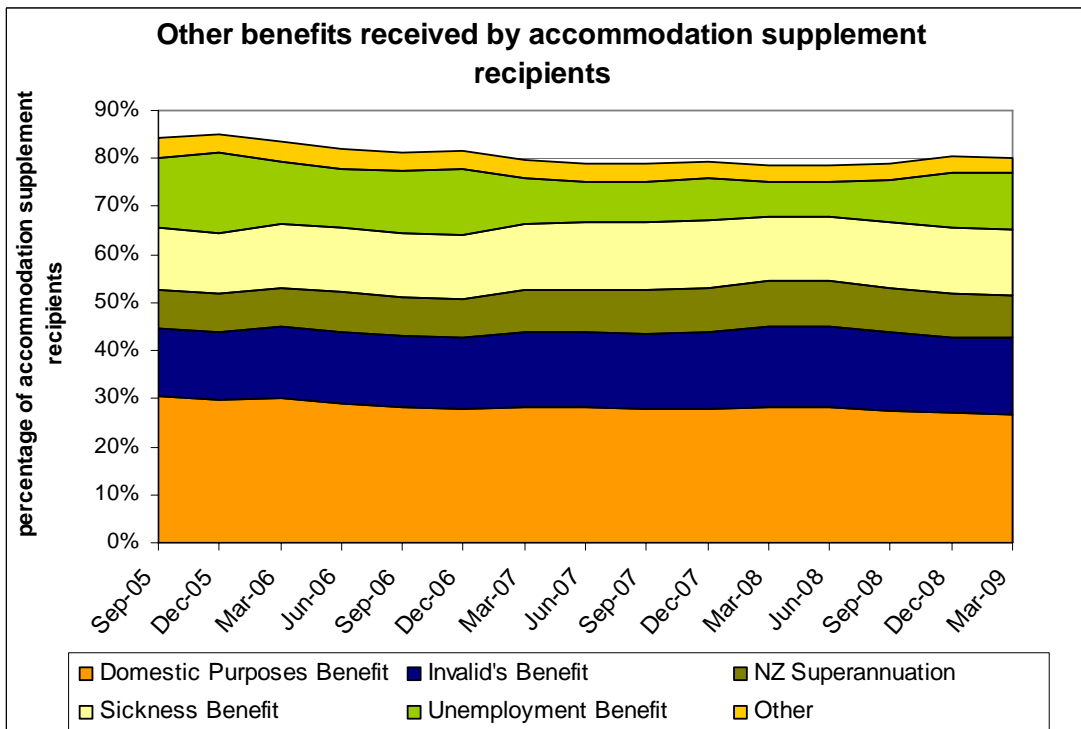
**Figure 15: Parent benefits received by income-related rent tenants**



Source: Housing New Zealand Corporation

Figure 16 shows that there were no significant changes in the composition of benefits received by AS recipients in the March 2009 quarter, when compared with the December 2008 quarter, although the spread in the second to top area (for Unemployment Benefits recipients) has been widening quickly since reaching its narrowest point in the June 2008 quarter. This is likely to continue.

**Figure 16: Other benefits received by accommodation supplement recipients**



Source: Ministry of Social Development

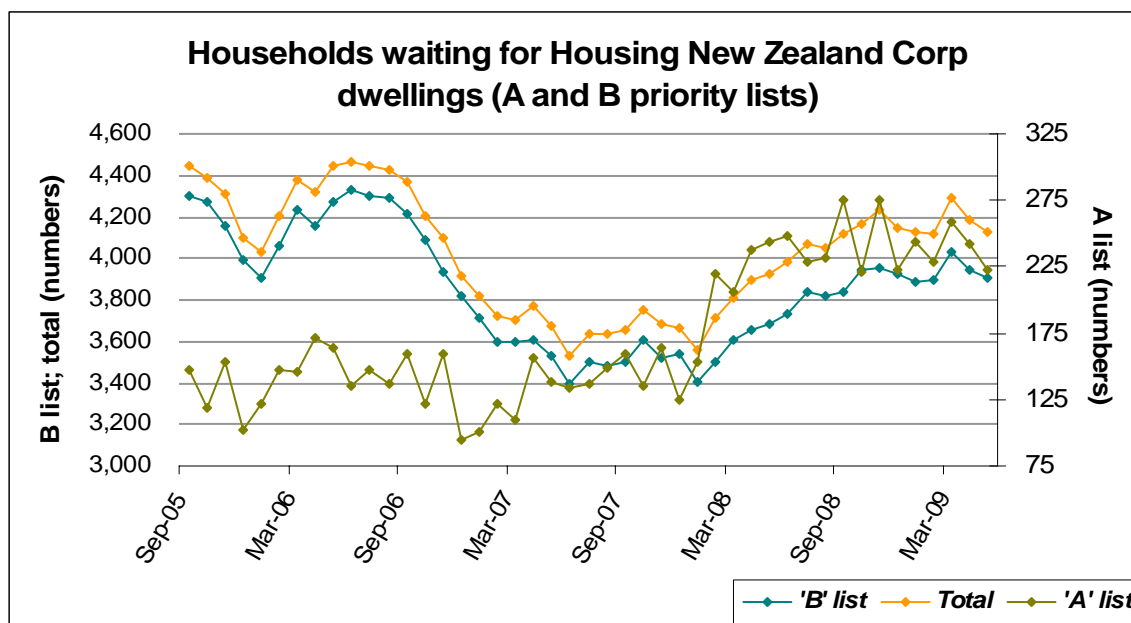
Waiting list priority for Housing New Zealand Corporation housing is determined by several factors,<sup>16</sup> and applicants are divided into four groups that reflect different levels of need. The groupings are referred to as:

- A priority<sup>17</sup>
- B priority<sup>18</sup>
- C and D priority<sup>19</sup>.

Our data source for the Housing New Zealand Corporation waiting list has changed, this quarter to provide more frequent and more robust data. Figures 16 and 17 may therefore not be comparable with the equivalent figures in previous trends reports.

As shown in Figure 17, the combined A and B priority waiting lists increased from 4,122 applicants in February 2009 to 4,124 in May 2009; up by 4.9 percent from May 2008. Over the May 2009 quarter, the A waiting list decreased by 3.1 percent from 229 to 222; this was a decrease of 9.0 percent on since May 2008. The B list increased by 0.2 percent from 3,893 to 3,902, an increase of 5.9 percent on May 2008.

**Figure 17: Households waiting for a Housing New Zealand Corporation dwelling (A- and B- priority lists)**



Source: Housing New Zealand Corporation

As shown in Figure 18, the waiting time for A priority candidates on the Housing New Zealand Corporation waiting list decreased by 7.3 percent from 55 days to 51 days between February and May 2009. At the same time, B priority applicants waited for a property 2.6 percent longer, from 189 days in February to 194 days in May 2009, a 19 percent increase since May 2008. Taken

<sup>16</sup> The factors are used to determine housing needs are: affordability; adequacy; suitability; accessibility; and sustainability.

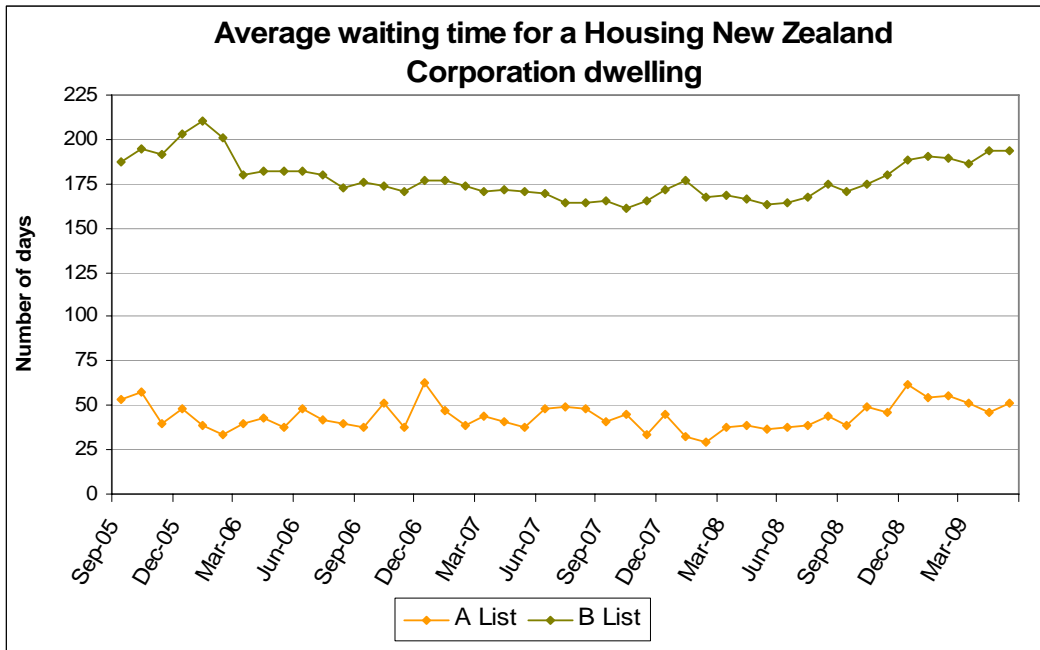
<sup>17</sup> 'A' priority households have severe and persistent housing needs that must be addressed immediately. The household's wellbeing is severely affected or seriously at risk due to housing circumstances that are unsuitable, inadequate or unsustainable, and there is an immediate need for action. The household is unable to access or afford suitable, adequate and sustainable housing without state intervention.

<sup>18</sup> 'B' priority households have a significant and persistent housing need. The household's wellbeing is affected in a significant and persistent way by housing circumstances that are unsuitable, inadequate or unsustainable. The household is unlikely, in the near future, to be able to access or afford suitable, adequate and sustainable housing without state intervention.

<sup>19</sup> 'C' and 'D' priority waiting lists are for households with low to moderate housing need.

together, the data suggests a slow increase in demand for Housing New Zealand Corporation properties, slightly beyond what the Corporation can meet in the short run.

**Figure 18: Average waiting time for a Housing New Zealand Corporation dwelling**

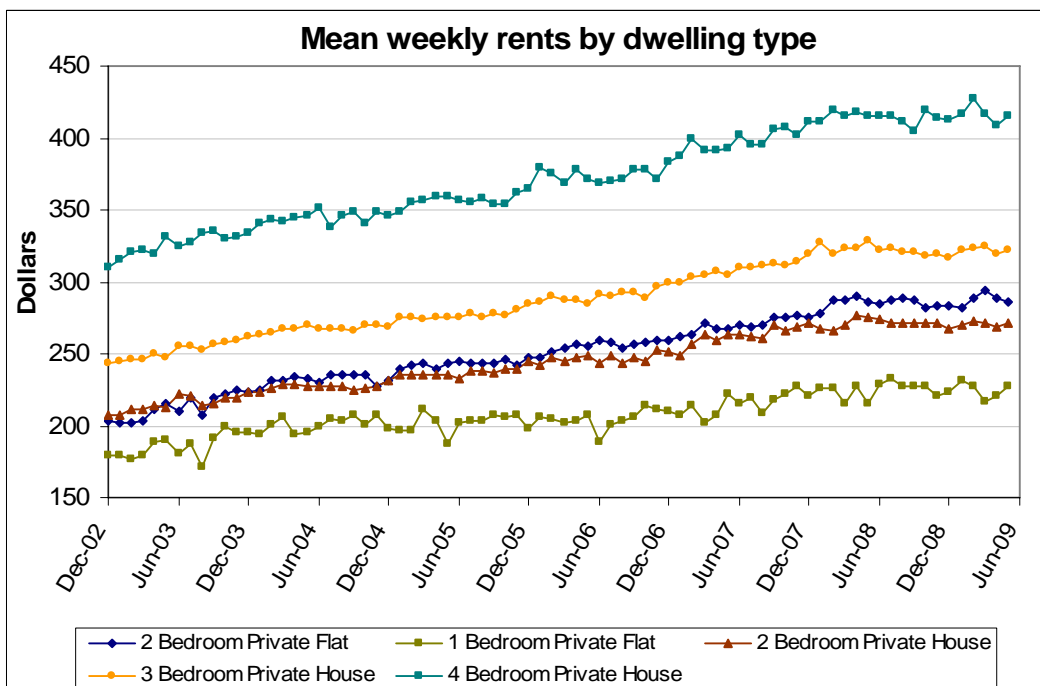


## Market rent analysis

*Rises in market rents levelling off; decreasing in some areas*

In the year to May 2009, the private market weekly rent for a one-bedroom flat grew the most at an annual rate of 5.6 percent, to \$228; followed by a two-bedroom flat remaining at \$286; and a four-bedroom house remaining at \$416. Over the same period, the rent for a three-bedroom house decreased by 2.1 percent to \$322, and a two-bedroom house decreased by 1.8 percent to \$271. The slowing of growth in rentals in early 2009 can be seen in Figure 19.

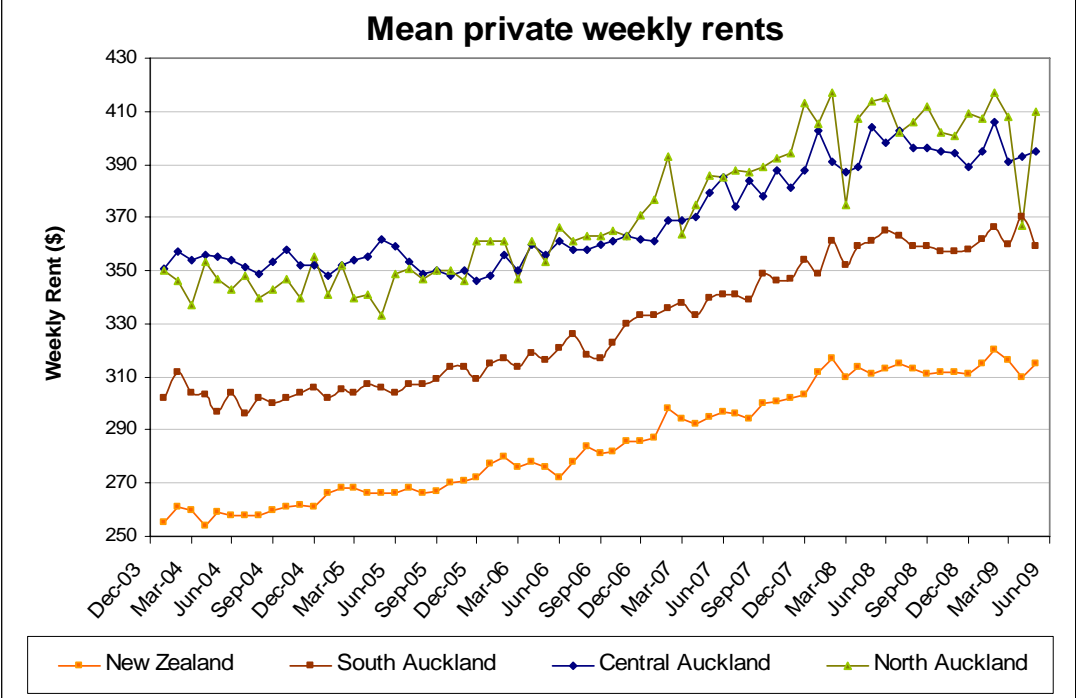
**Figure 19: Mean weekly rents by dwelling type**



Source: Department of Building and Housing

Overall, as shown in Figure 20, the growth in rents generally is levelling off. In the year to May 2009, mean rents for new tenancies increased by 1.3 percent nationally compared with a 5.4 percent growth in the year to May 2008. However, over the same period, rents for new tenancies recorded decreases of 1 percent in North Auckland; 2.2 percent in Central Auckland and 0.6 percent in South Auckland.

**Figure 20: Mean private weekly rents (to May 2009)**



Source: Department of Building and Housing

# Other developments in the building and housing sector

## Weathertightness

The following information provides a 'snapshot' of recent developments in Weathertight Services.

From 1 January to 31 March 2009 the Weathertight Services Group (WSG):

- received and processed claims for 275 dwellings
- commissioned 250 and completed 307 assessments and addenda of leaky homes, quantifying the extent and cause of claimants' homes leaking, cost to repair, and identifying parties to each claim
- provided advice and presentations to 129 claimants and potential claimants during a total of 85 meetings
- closed 155 claims including 85 resolved claims
- spent \$1.437 million from 1 January to 31 March 2009 on direct costs associated with providing of assessment reports for claimants
- successfully mediated 19 cases lodged with the Weathertight Homes Tribunal (the Tribunal)
- continued with the second phase of the development of the Weathertight Consumer Awareness Programme which will run until the end of 2009.

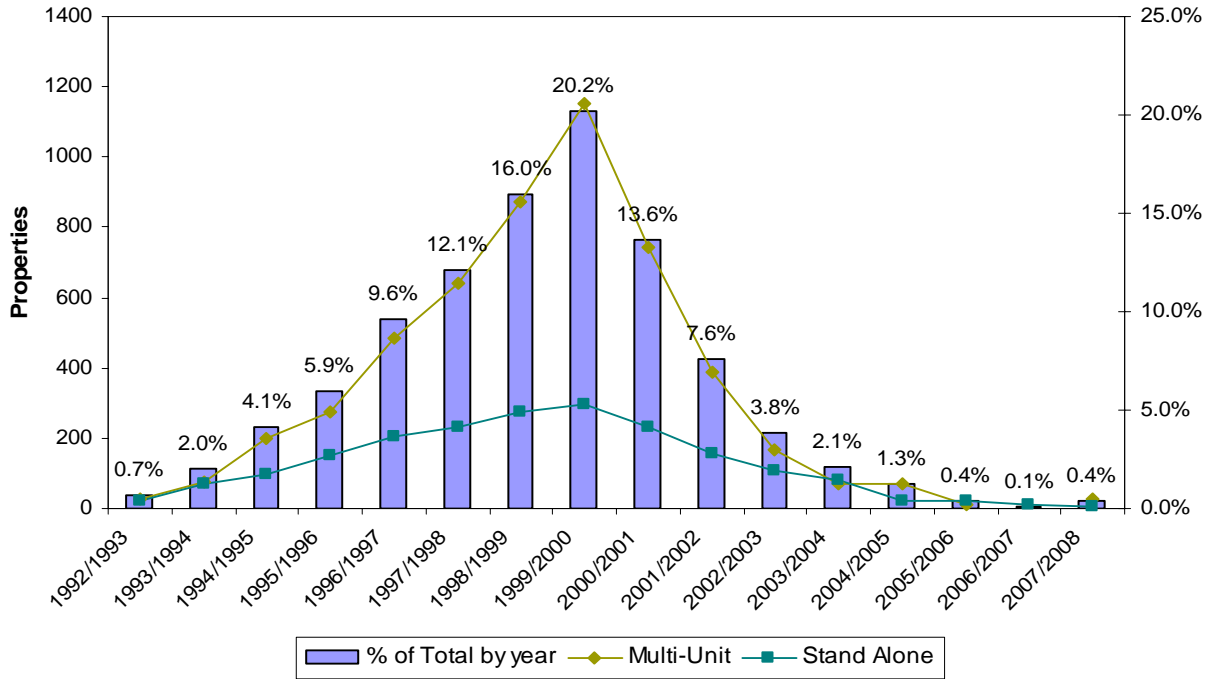
Each claim requires either an eligibility or full assessment to be carried out. These assessments are carried out by a group of contracted experts, who are appointed based on their knowledge, skills and experience. These assessors' reports provide an accurate and thorough indication of damage by defect, including the nature of defect, location, cause, damage and estimate of cost to repair. This provides a basis for mediators or adjudicators to determine settlement. A detailed estimate of full remedial costs, provided by a quantity surveyor, adds to the rigour of the report.

The two methods generally used to resolve claims by the Tribunal are adjudication and mediation. The mediators are provided by the Department of Building and Housing. Most claims (92 percent between 1 January to 31 March 2009) are resolved by mediation. The details of the negotiated settlements are confidential to the parties and are therefore not reported. In many cases it is agreed that a party will carry out repair work instead of paying money.

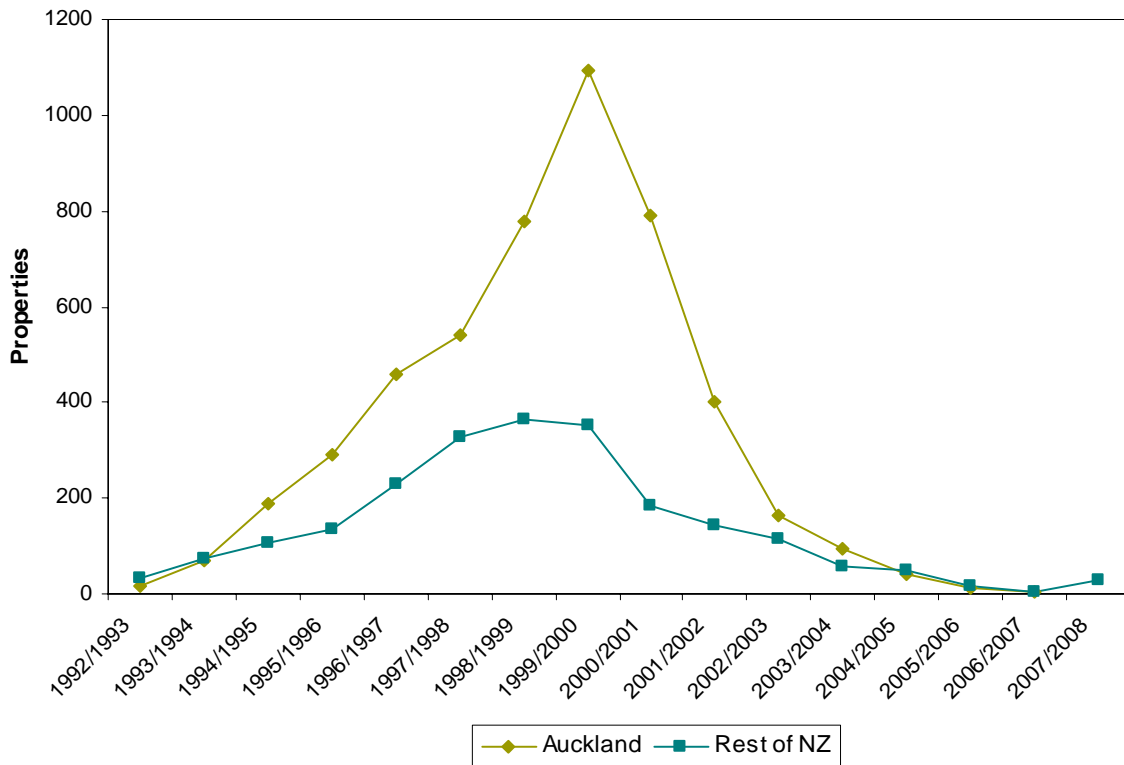
The outcomes of all adjudications are publicly available on the Ministry of Justice website <http://www.justice.govt.nz/wht/home.asp>.

It is necessary to point out that statistics of settlement outcomes from Tribunal under-represent the actual Weathertight outcomes. The Tribunal exists to resolve only those claims where the parties have been unable to reach agreement. Statistics of settlement outcomes therefore exclude the many instances where settlements have been privately negotiated between parties, or where a satisfactory outcome has been addressed through other avenues. These parties have typically relied on the administrative resources of the Weathertight Homes Resolution Service to get to a point where settlement can be reached.

### Properties with WHRS by type and the year built or altered



### Properties with WHRS by location and the year built or altered



## Building Act determinations

The Building Regulations contain the New Zealand Building Code, and the Building Act 2004 contains rules about building consents and inspections. The Department sometimes receives requests to clarify interpretations of the Building Code and territorial authorities' functions and powers under the Building Act. The Department then decides on the request (that is, makes a determination) about a particular situation.

The number of determinations has increased since 2003. As at 4 June 2009, the Department had processed a total of 688 determinations. Approximately 67 percent of these were related to cladding and weathertightness issues.

**Table 1: Building Act Determinations**

| <b>Building Controls Determinations</b>                         | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>to<br/>4/6/2009</b> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|------------------------|
| Cladding / Weathertightness <sup>1</sup>                        | 1           | 68          | 144         | 89          | 80          | 66          | 16                     |
| Access and facilities for people with disabilities <sup>2</sup> | 5           | 2           | 4           | 4           | 4           | 10          | 1                      |
| Fire safety <sup>3</sup>  | 1           | 2           | 8           | 5           | 1           | 3           | 2                      |
| Surface water <sup>4</sup>                                      | 2           | 2           | 0           | 5           | 0           | 1           | 1                      |
| Swimming pool fencing <sup>5</sup>                              | 1           | 0           | 2           | 4           | 4           | 3           | 0                      |
| Structure <sup>6</sup>  | 0           | 1           | 1           | 1           | 6           | 7           | 3                      |
| Interior environment and facilities <sup>7</sup>                | 0           | 1           | 2           | 1           | 3           | 3           | 1                      |
| Land subject to natural hazards <sup>8</sup>                    | 0           | 1           | 1           | 3           | 2           | 1           | 0                      |
| Barrier <sup>9</sup>  | 1           | 0           | 3           | 2           | 1           | 4           | 2                      |
| Other (refusal to issue CCC, etc) <sup>10</sup>                 | 0           | 0           | 1           | 15          | 40          | 26          | 14                     |
| <b>Total</b>  | <b>11</b>   | <b>77</b>   | <b>166</b>  | <b>129</b>  | <b>141</b>  | <b>124</b>  | <b>40</b>              |

1. Cladding / Weathertightness - includes assessment of monolithic claddings and other weathertightness matters.
2. Access and facilities for people with disabilities - including accessible routes, ramps, lifts, toilets etc
3. Fire Safety - includes emergency egress, fire cells, alarms, smoke detectors, and messaging to emergency services.
4. Surface water - refers to storm water and surface water run-off from one property to another.
5. Swimming pool fencing - compliance with the Fencing of Swimming Pools Act.
6. Structure - includes safeguard from injury, loss of amenity and protection of other property.
7. Interior environment and facilities - this category includes laundering, personal hygiene, and management of internal moisture.
8. Land subject to natural hazards - includes issues such as coastal erosion, and land subject to flooding and instability.
9. Barriers - includes deck barriers, stair balustrades and similar.
10. Other - includes refusal to issue building consent or code compliance certificate for procedural reasons other than code compliance.