

## New Zealand Building Activity on the Upturn?

**NEW ZEALAND, Wellington 4 February, 2008: Rider Levett Bucknall's Forecast 48 report – New Zealand Trends in Property and Construction - released today, suggests that New Zealand's non-residential building activity may be rebounding - increasing pressure on construction resources and costs.**

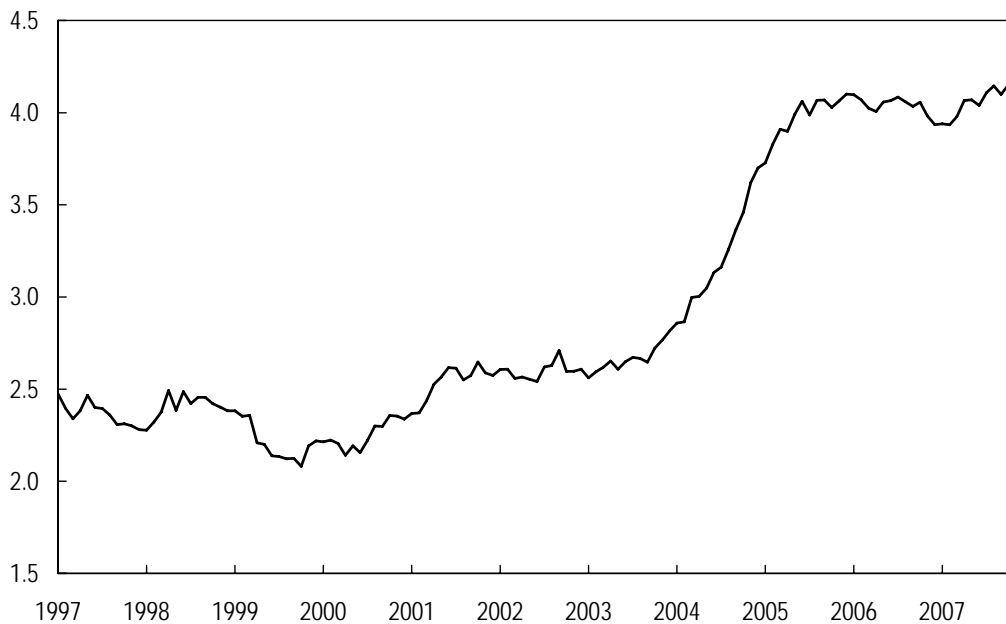
Prepared by the New Zealand Institute of Economic Research (Inc) (NZIER) exclusively for Rider Levett Bucknall, the report states although cost escalation slowed during 2007, the latest quarter's (September 07) upturn in non-residential building work put in place coupled with sustained high and still climbing level of consents suggests strong demand for building materials and labour and therefore continuing pressure on building costs in the short to medium run at least.

The increase in building activity put in place in the September 07 quarter was significant, with all but the miscellaneous buildings sector seeing an upturn in building activity. It was the busiest quarter for two years in the factories and industrial buildings quarter, busiest for 20 years in the commercial buildings sector and busiest ever in the hospitals and nursing homes sector.

Hugh Mackenzie, Managing Director of Rider Levett Bucknall's Wellington office commented, "*If this upturn lasts, we may start seeing a rebound in building work put in place, as high levels of consents of recent quarters start to feed through into construction.*"

### **Annual non-residential building consents**

\$ billion



Source: Statistics New Zealand

## **Building Consents**

The total value of non-residential building consents issued continued to climb during 2007. In the year to November 2007, consents reached a further record high approaching \$4.2 billion, 4.9 per cent more than in the year to November 2006.

Under a time lag of generally six to nine months between granting of a consent and commencement of building work, the latest consents data suggest strong demand in the building sector for most of 2008 at least.

By floor area, consents were issued for nearly 3.5 million square metres of non-residential building in the year to November 2007, 12 per cent more than in the year to November 2006.

In the year to November 2007, the three largest sectors – offices and administration buildings (growing by 14 per cent); shops restaurants and taverns (growing by 19 per cent); and factories and industrial buildings (growing by 12 per cent) – continued to show robust growth in consent values.

Although consents growth was flat in all three of the main centres in the year to November 2007, the Tasman, Nelson, Manawatu-Wanganui and Otago regions saw the largest increases in consents. Tasman leapt from close to zero to 61 per cent growth in the year to November 2007. As one of the smallest regions reported, its figures are heavily influenced by individual projects.

## **Building Costs Forecast**

In the September 2007 quarter, the Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) rose 0.4 per cent, after a 0.2 per cent increase in the June 2007 quarter and 0.1 per cent increase in the March 2007 quarter. Statistics New Zealand attributes most of the latest quarter's increase to higher costs for structural steel work and electrical services in commercial buildings.

In annual terms, however, cost escalation was down to 1.7 per cent, the lowest annual increase since December 2002.

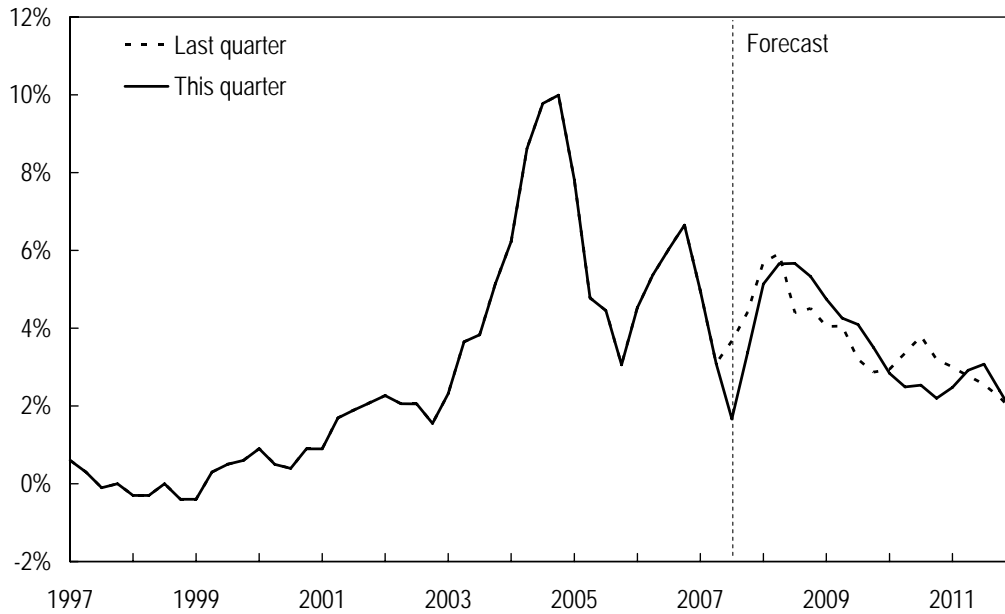
NZIER's latest forecast of changes in the CGPI-NRB is shown below.

From the current low, it suggests a slightly later increase in cost escalation in 2008 and later decrease in 2009 and 2010, followed by later subsequent cycles of increase and decrease.

Mr Mackenzie summarised, *“Although annual cost escalation slowed during 2007, and is still low relative to recent highs, it accelerated slightly in recent quarters,”*

*“Together with the latest quarter's upturn in building work put in place, the sustained high and still climbing level of consents suggests strong demand for building materials and labour, and therefore continuing pressure on building costs in the short to medium term at least,”* he said.

## **Non-residential building cost escalation (annual percentage change in the CGPI-NRB)**



Source: Statistics New Zealand, NZIER forecast

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For further comments, please contact:

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