

INFRASTRUCTURE
AND BUILDINGS
CONSTRUCTION
SURVEY

Sentiment

1H
2013

NEW ZEALAND

IN THIS ISSUE

- Where is investment expected to increase?
- Which sectors will see growth?
- What will drive investment?
- What are the key challenges for the industry?

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THE REVIEW

Sentiment continues to strengthen in New Zealand’s buildings market, while the infrastructure market is more cautious. In most parts of the industry, conditions have improved in 2013 and this helped build further confidence that the industry’s recovery is likely to shift up a gear.

In addition to highlighting these differences in sentiment, AECOM’s survey of industry leaders and decision makers identifies the opportunities and challenges shared by the industry as a whole.

There is a more promising outlook in New Zealand’s buildings market, driven by better prospects in the residential, commercial and social infrastructure sectors. These expectations for increased investment are not as strong in all regions; in the North Island – Lower region confidence in the buildings market has eased from 47 percent in November 2012 to 33 percent in our current survey.

A notable level of uncertainty persists in the infrastructure market. The investment side of the industry — consisting of public authorities and private investors — expects ongoing investment in some sectors, while in others project timing and funding remains unclear.

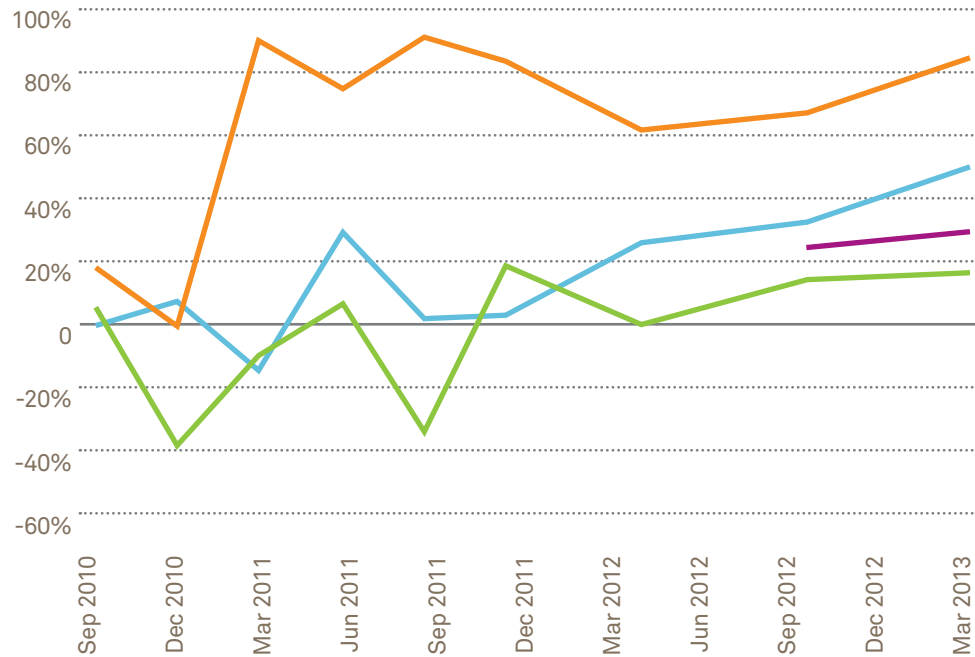
In our spotlight on Canterbury we found a resounding endorsement for an ambitious, innovative rebuild. Alongside this enthusiasm, uncertainty remains about project funding and resourcing, particularly to handle the peak of the rebuild that many envisage will occur in 2016 or beyond.

Trends within the broader landscape of the industry, such as approaches to foreign investment and regulatory efficiency are also identified as key factors shaping its future. The direction the nation takes in its evolution beyond a grass-fed economy will directly impact the way New Zealand’s buildings and infrastructure industries do business.

Workload expectations trend

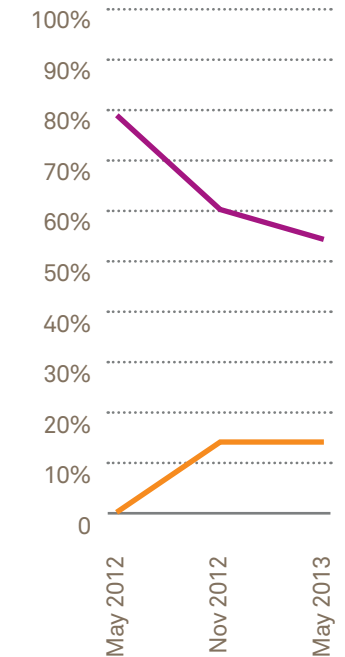
Buildings market
9th industry survey

Christchurch
Wellington
Auckland
Hamilton



Infrastructure market
3rd industry survey

Investment market
Delivery market



KEY INDICATORS

WORKLOAD AND INVESTMENT EXPECTATIONS

Infrastructure investment declines



31 percent expect a decline in infrastructure investment over the next three years

Infrastructure delivery market moderates



6 percentage point fall in net workload expectations from the infrastructure delivery market since November 2012 survey

Building sector optimism strengthens



73 percent expect increased building sector activity over the next 12 months

Residential on the rise



62 percent expect to see more work in the residential sector

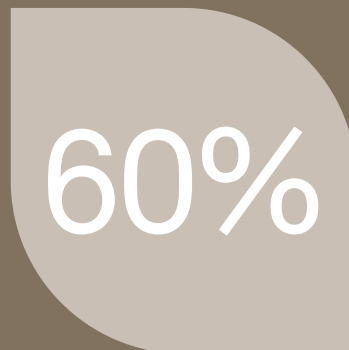
INDUSTRY DRIVERS AND BARRIERS

An ambitious rebuild



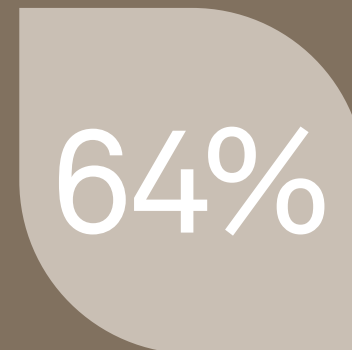
52 percent of Canterbury respondents support an ambitious approach to the rebuild

Peak of the rebuild



More than 60 percent of respondents in Canterbury believe the peak of the rebuild will be in 2016 or later

Skills shortage



64 percent of respondents are currently having trouble recruiting skilled professionals

Attract more foreign investment



55 percent of respondents believe New Zealand should be doing more to attract foreign investment

INFRASTRUCTURE MARKET

EXPENDITURE AND WORKLOAD EXPECTATIONS

While some infrastructure industry participants have seen better conditions over the past 12 months, little has changed in the outlook in this part of the industry since the November 2012 survey.

Consultants and contractors in the delivery market have reported some improvements in infrastructure workloads; 51 percent of respondents saw an increase in work on their books over the last 12 months (this is up on 39 percent six months ago).

The outlook for the infrastructure delivery market remains solid with the majority (65 percent) expecting more projects over the next three years. This number has eased slightly from the 73 percent of respondents in the previous survey expecting more work.

In comparison, the investment market continues to show notable levels of pessimism, with 31 percent of respondents expecting a decline in infrastructure expenditure over the next three years. This group was only just out-numbered by the 45 percent of respondents who see increased levels of investment occurring in this period.

These investment expectations are marked by frustrations about progress in Christchurch and the limited funds available for public expenditure on other types of infrastructure.

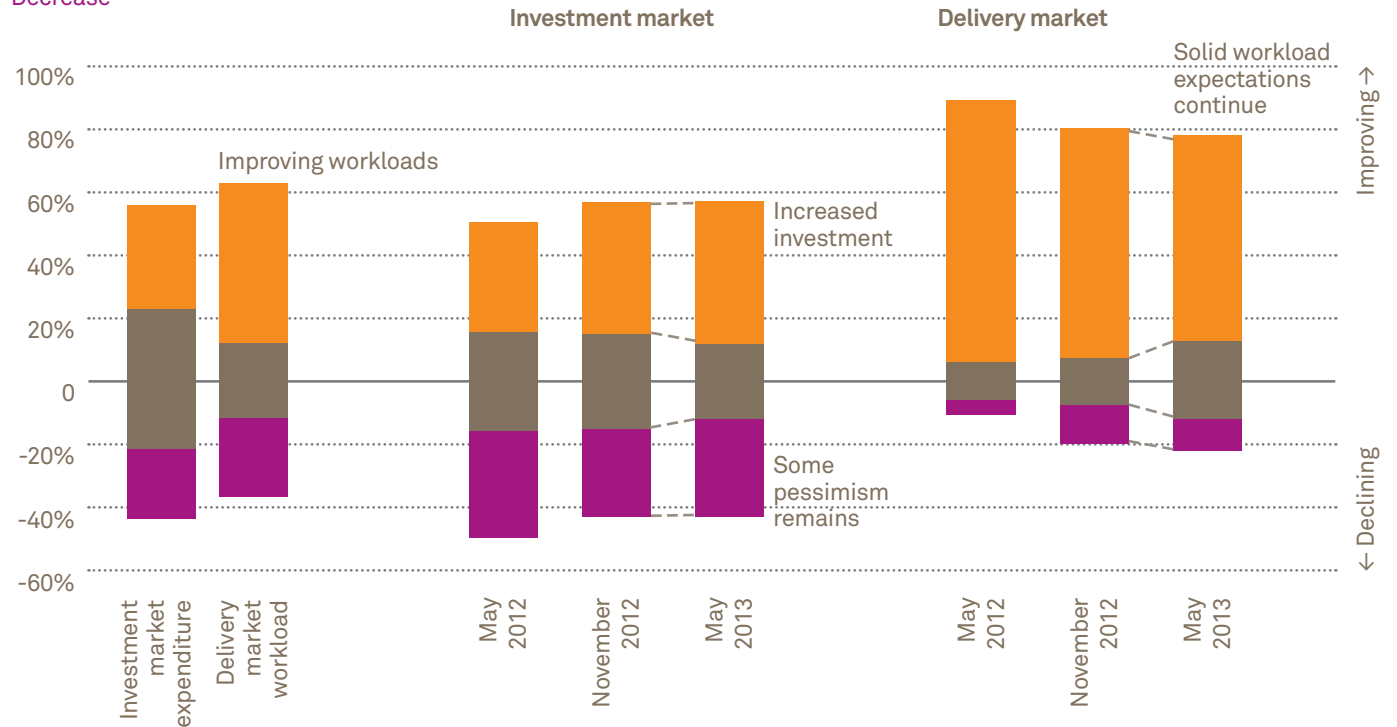
Infrastructure workload and investment expectations

Over the last 12 months

3 year expectations

Change in expectation between surveys

Increase
Steady
Decrease



Note: Measures of improving or declining expectations represent the proportion of respondent views on market direction – not the actual anticipated change in workloads.

WORKLOAD BY REGION



Unsurprisingly, Canterbury is expected to see the biggest influx of infrastructure expenditure. The outlook for the North Island, particularly around Auckland, has also seen some improvement since late last year with 53 percent now anticipating more investment in this area over the next three years.

Elsewhere in the North, overall optimism about infrastructure investment in the central and lower regions has improved by 8 percentage points, compared to its level in our November 2012 survey.

Land development is expected to garner significant investment as certain regions enable further residential development, after several years of a stagnant housing market. Respondents from the South Island outside of Canterbury and those in the North Island – Central region reported the biggest upswings in optimism about residential development in the coming year.

More than half (55 percent) of respondents in the North Island – Upper region expect more money for rail investment, but fewer expect this investment elsewhere.

There has been a slight increase in expectations for investment in water infrastructure — particularly in the North Island where six months ago 27 percent of respondents expected to see more money spent in this sector. This has now risen to 33 percent of respondents — potentially driven by the significant water and wastewater capital investment programme in Auckland.

 We need to be careful that, in our desire to cut costs now, we do not leave future generations with a legacy of underinvestment backlog and declining service levels to address, at greater cost than we have managed to save. 

Ian Martin, Regional Manager Wellington, AECOM

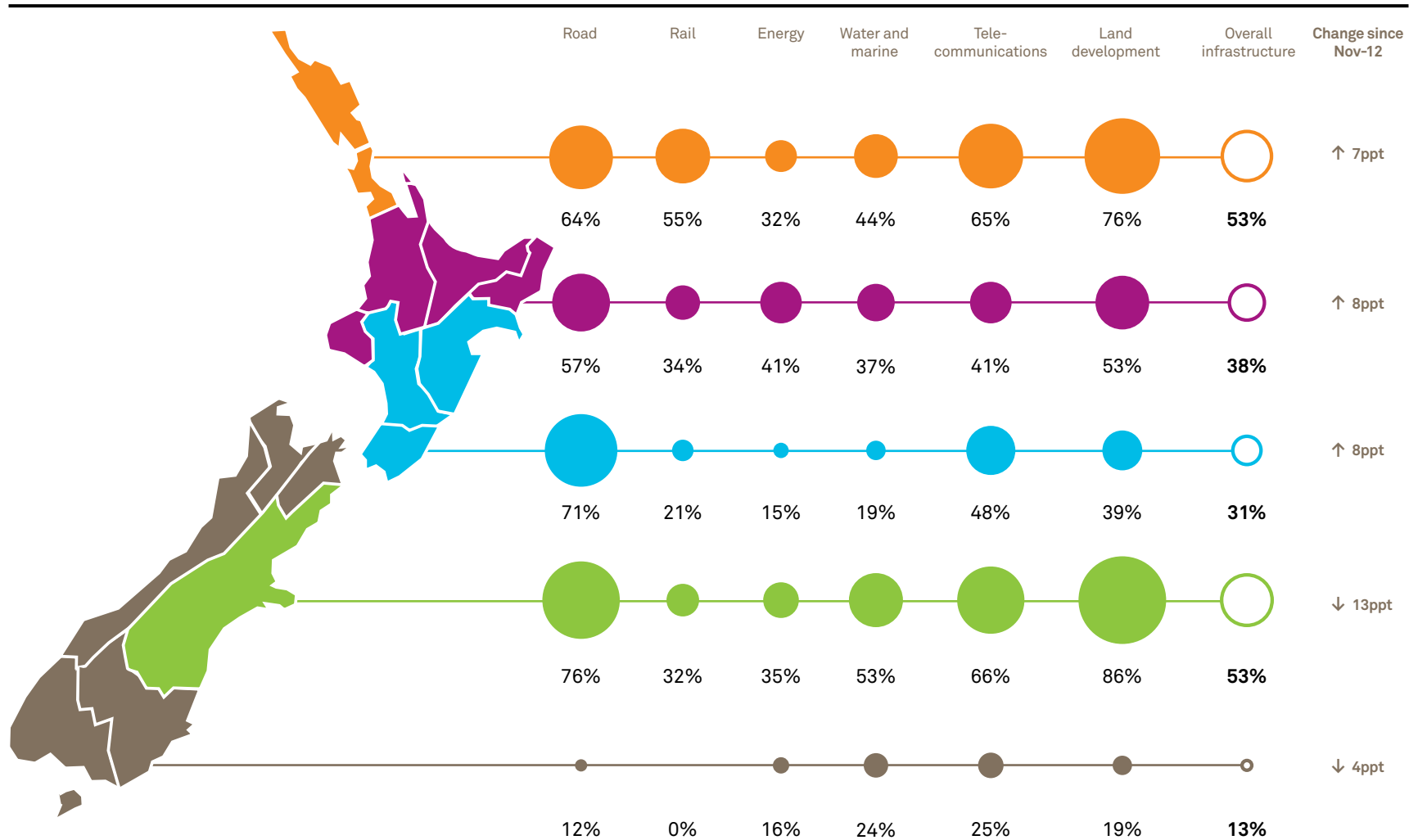


53 percent of respondents expect more infrastructure investment in the North Island – Upper region over the next three years

55%

55 percent of respondents in the North Island – Upper region expect more money for rail investment

Proportion of respondents expecting increased investment by region



Note: Bubbles indicate the market optimism for growth over the next year.

Current optimism in the water sector is being driven by planned water and wastewater infrastructure capital expenditure in Auckland to deal with the predicted population growth and significant ongoing asset renewal. The scale of some of the planned water sector projects, particularly in the context of a still subdued global market, is attracting overseas interest.

However, optimism is potentially a little tempered by a highly competitive New Zealand market and firms operating in Australia have been hit hard by economic conditions there, not least the significant drop-off in the mining sector.

Geoff Milsom, New Zealand Group Lead for Water and Infrastructure Services, AECOM

INFRASTRUCTURE PRIORITIES

The perspective of the infrastructure industry — that is those who directly invest in or deliver projects — provides a valuable understanding, an inside view, of why certain investments would help keep the nation productive, beyond political imperatives or simplified payback assessments.

When respondents were asked what the nation's infrastructure priorities should be (if money was no object), there were ongoing concerns about transport, and an emerging concern about the water sector.

Transport

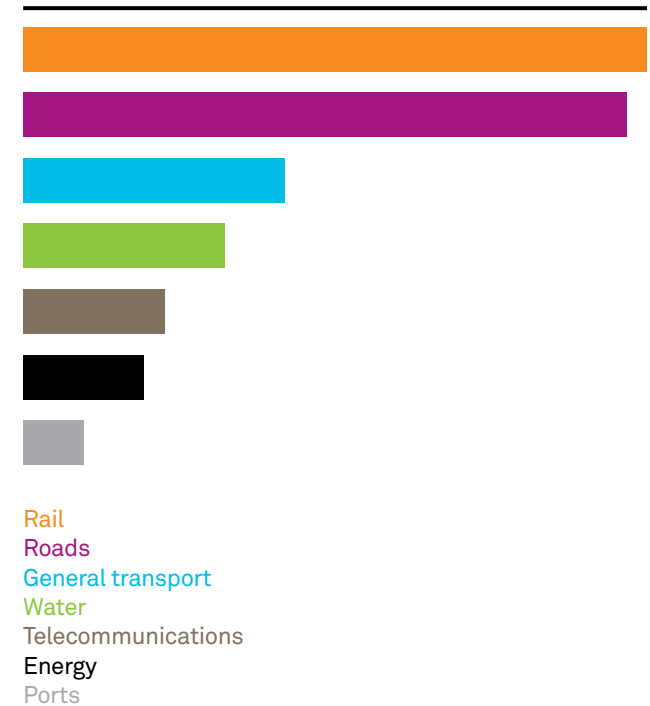
As in the previous November 2012 survey, roads remains one of the top infrastructure priorities for respondents, except this time it was more than matched by the view that more needs to be invested in the rail sector. This conflicts with the spending outlook reported by our industry respondents (on the previous page of this report), as the Roads of National Significance programme takes up a significant amount of infrastructure funding over the next few years.

There is a realisation within the industry that without other funding mechanisms, public funds for a range of transport initiatives are limited. However, there is also a sense that a more integrated approach to city transport systems is essential to future growth. This will require broader investment in other modes, such as trains and buses.

Water

Investment in water infrastructure was ranked as the next priority after transport and ahead of energy and telecommunications. The recent drought has sharpened the focus on the water industry and how effectively it serves the nation. The broader structure of the industry is also a significant area of debate, as many question the efficiencies of the current framework (this is explored in greater detail on page 16 of this report).

Infrastructure priorities by sector



BUILDINGS MARKET

EXPENDITURE AND WORKLOAD EXPECTATIONS

The outlook for the buildings sector has improved significantly since the 2012 surveys of the industry. Overall, respondents expecting increased building activity jumped from 53 percent six months ago to 73 percent in the May 2013 survey.

Many are expecting an upturn in the near future, albeit from a very low base, considering recent work volumes. There are increased numbers seeing renewed interest in certain sectors, such as residential, office and retail.

There is much less pessimism in the investment market, with the proportion of respondents expecting a decline in expenditure dropping from 33 percent in November 2012 to only 8 percent in our current survey. Optimism has also grown in the delivery market with expectations that the coming year will see improved work levels in Christchurch, and also other parts of the country such as Auckland.

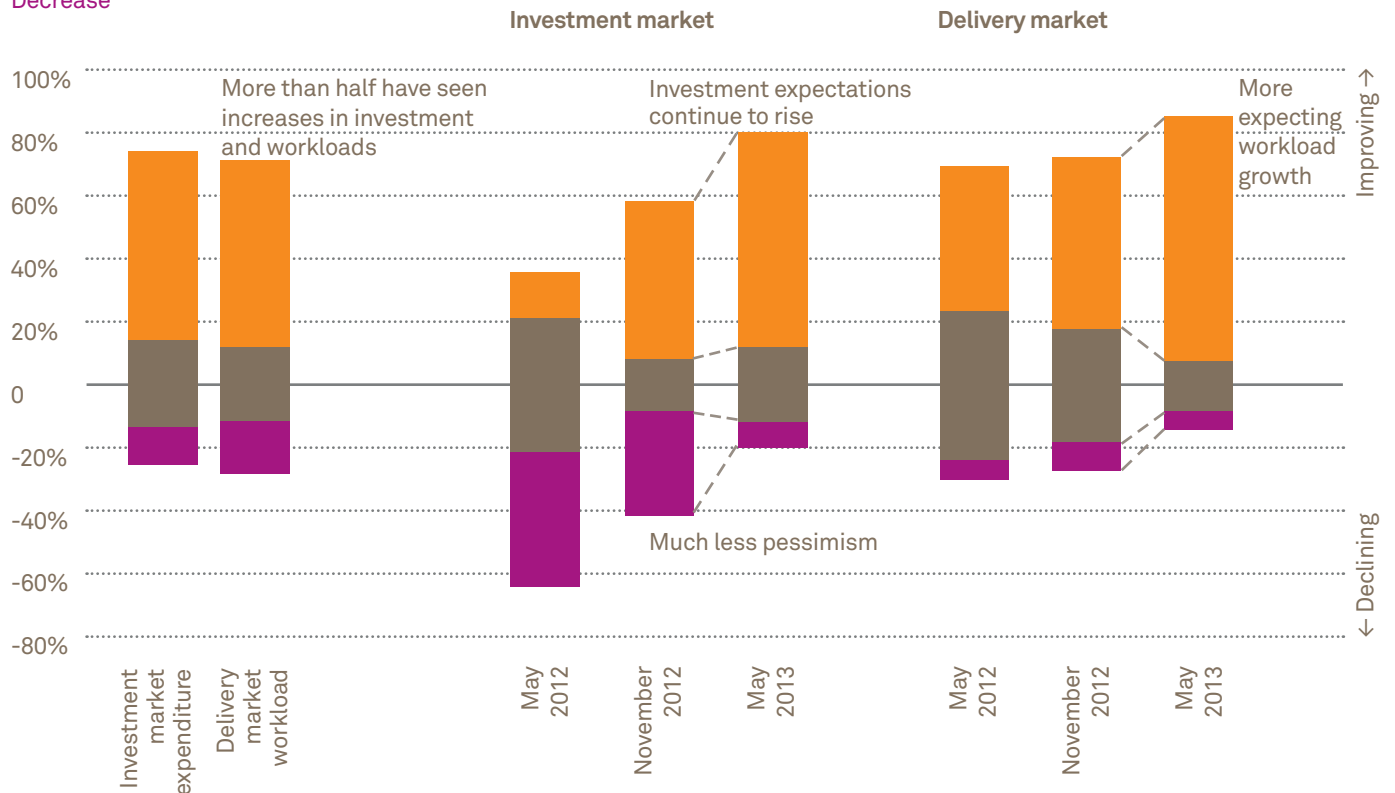
Buildings workload and investment expectations

Over the last 12 months

12 month expectations

Change in expectation between surveys

Increase
Steady
Decrease



Note: Measures of improving or declining expectations represent the proportion of respondent views on market direction – not the actual anticipated change in workloads.

WORKLOAD BY REGION AND SECTOR

Expectations were high among our industry respondents that there would be an uplift in residential building works over the coming year; 62 percent across the country believed supply would improve to respond to pent-up demand.

Many expected investment in existing building works to continue. This is being driven by ongoing seismic upgrades, but may also be an indicator of leasing competition as landlords work to retain existing tenants or attract new ones.

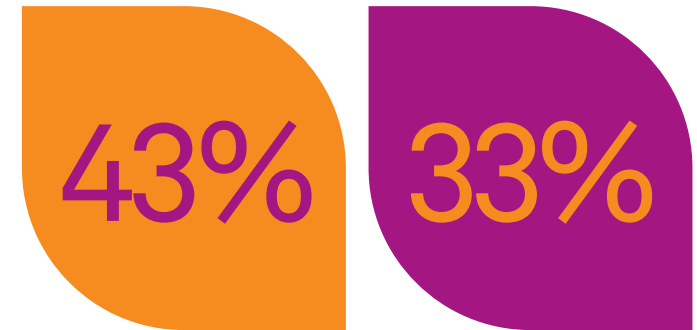
Compared to the previous survey, there has been a shift in optimism towards social infrastructure projects — particularly in the South Island outside Canterbury. Greater investment in these services will be required in many parts of the country to keep up with changing population demographics.

There is also a better outlook for the commercial sector with more respondents in the Auckland region expecting an increase in office and retail projects than six months ago. Our May survey shows that 43 percent are confident of greater investment in the North Island – Upper's office market. In contrast, expectations for spending on building projects in the public sector have declined across the board.

The uplift in building sector sentiment is not progressing as swiftly in all regions of the country. The North Island – Lower region confidence in generating more building sector work has eased from 47 percent in our November 2012 survey to 33 percent in our current survey.

While investment in the Roads of National Significance continues to provide an economic boost to the region, we are also seeing a pick-up in the buildings sector with seismic strength issues and a demand for quality office space driving new building development in the Hamilton CBD.

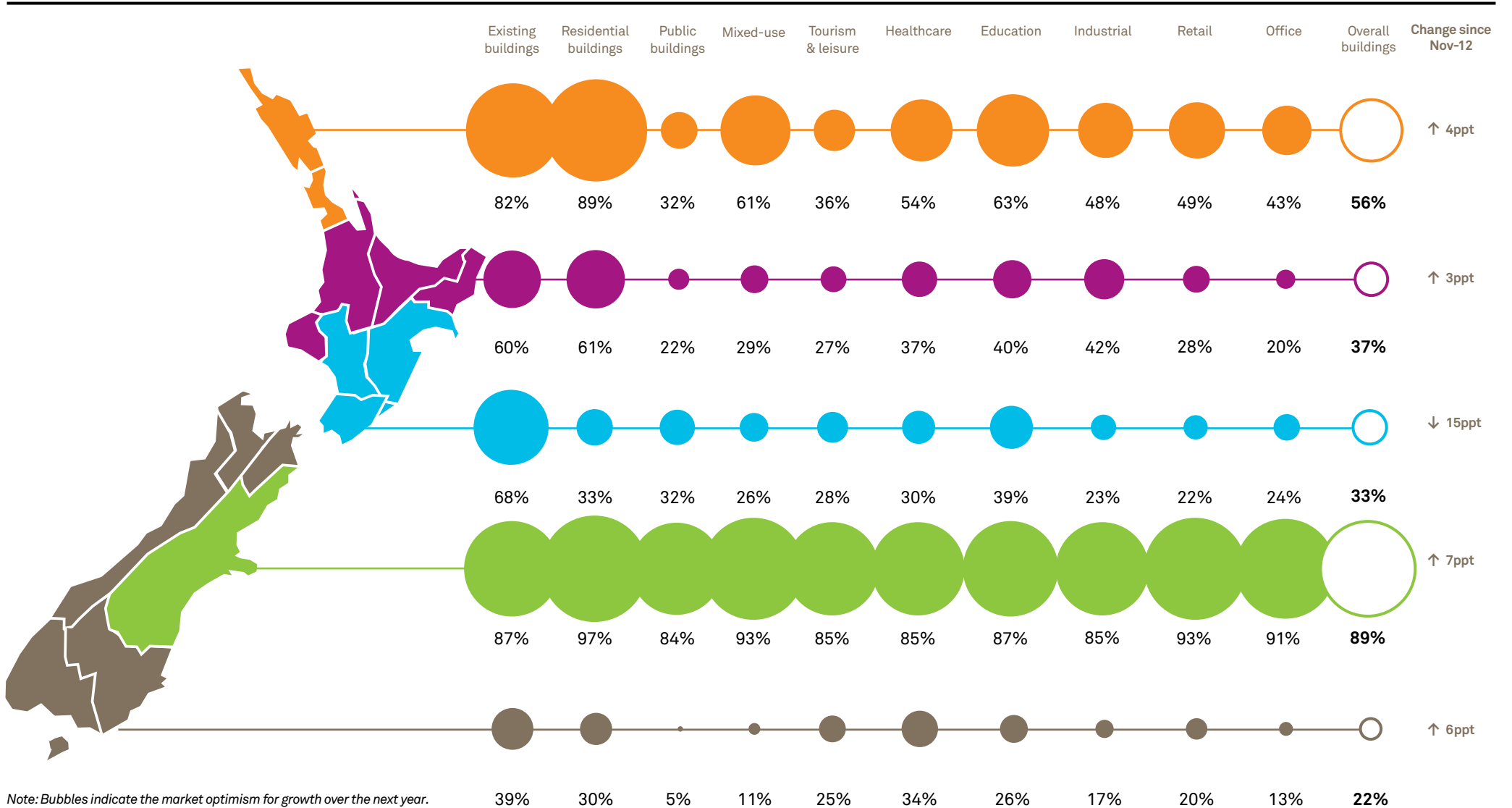
Craig Davidson, Regional Manager Waikato & Bay of Plenty, AECOM



43 percent of respondents are confident of greater investment in the North Island – Upper's office market

33 percent of respondents in our current survey expect more building sector investment in the North Island – Lower region, down from 47 percent in November 2012

Proportion of respondents expecting increased investment by region



INFRASTRUCTURE AND BUILDINGS MARKETS

SPOTLIGHT ON CANTERBURY

Barometer of ambition for the rebuild

Many in the industry believe in a bold new vision for Christchurch. They see a city re-imagined, rather than a quick replication, and place great importance on this in order to ensure the longevity and appeal of the new city. Some respondents saw it in a much broader sense: “We will never have a better opportunity to advance the industry, the community and the nation.”

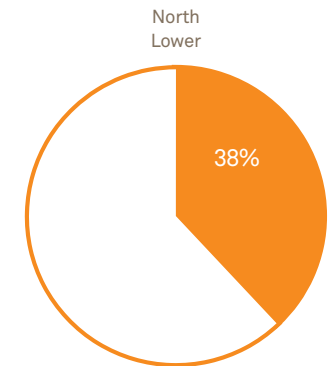
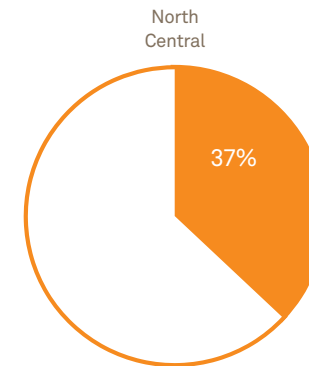
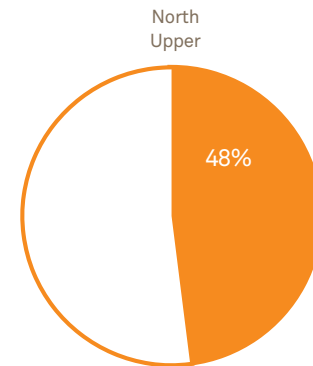
The greatest support for this approach came from the Canterbury region (52 percent of respondents), but this was also reinforced by a healthy level of support from across the country. An ambitious approach was supported by 41 percent of respondents from the North Island.

This vision would consist of taking “the best from around the world” and was an “opportunity for greater partnerships... and significant improvements with new technology”. Some felt that political imperatives and small thinking may limit the ambition and result in a more “timid” scope. However, given concern about Christchurch City’s debt levels it remains to be seen how the City will balance debt funding with its rebuild aspirations.

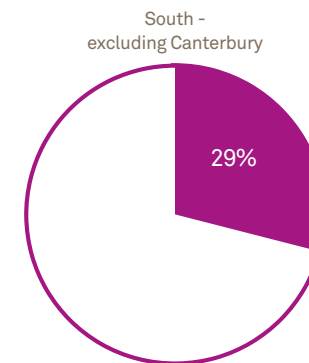
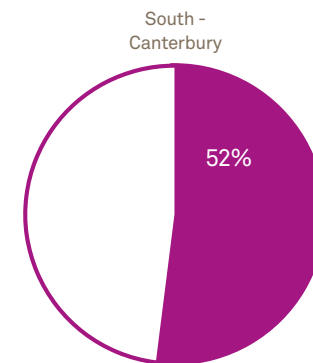
The main concern for those who did not want to waste any more time was that the longer people are kept waiting, the harder it will be for the city to regenerate. This was particularly the case in residential areas.

An ambitious Canterbury rebuild – level of support from the industry

North Island



South Island



More than half of Canterbury’s respondents from the infrastructure and buildings industries believe the rebuild should be ambitious, innovative and uncompromising.

Peak of the rebuild

There was some disagreement among respondents about when the peak of the Canterbury rebuild might occur; symptomatic of the broader uncertainty about the timing of key projects.

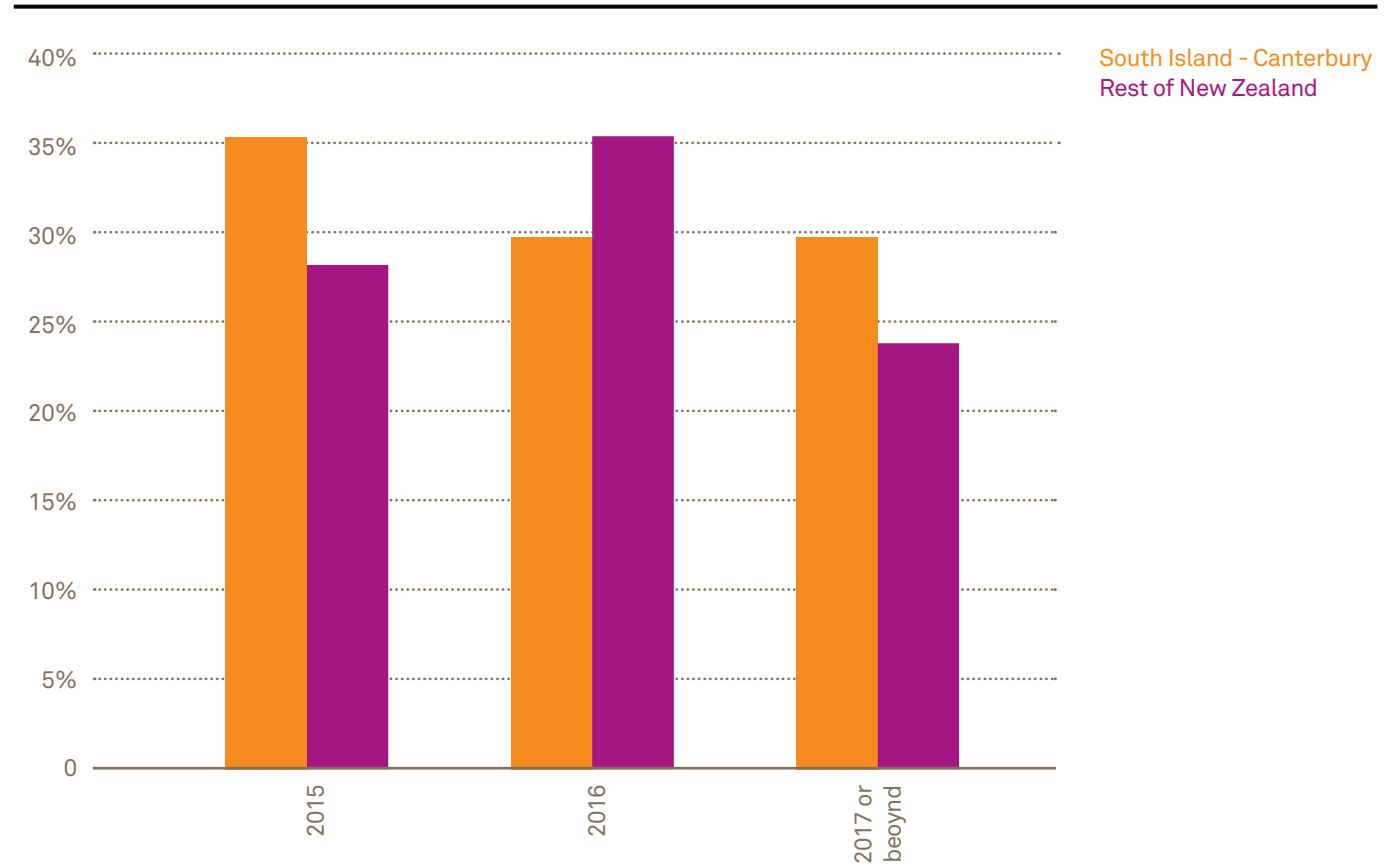
The majority selected 2016 or beyond for the peak of the rebuild — more than 60 percent of respondents working in Canterbury believed this would be the case.

There were slightly different views from the public and private sectors about the flow of projects. In the public sector, the majority expect the peak of the rebuild to occur in 2016, whereas other parts of the industry see work stretching beyond this year.

Total consent value for Canterbury building works up to March 2013 was \$940 million, up 50 percent on the total value six months prior. The total value of the wider rebuild efforts jumped to \$40 billion earlier in 2013.

Considering this impending workload, many in the industry are concerned about whether there is the capacity to staff these projects. Recruitment of skilled professionals is currently a problem for 64 percent of the industry. This situation is even worse in Canterbury where 81 percent are finding recruitment of the right skilled professionals a challenge.

When do you expect the peak of the rebuild to occur?



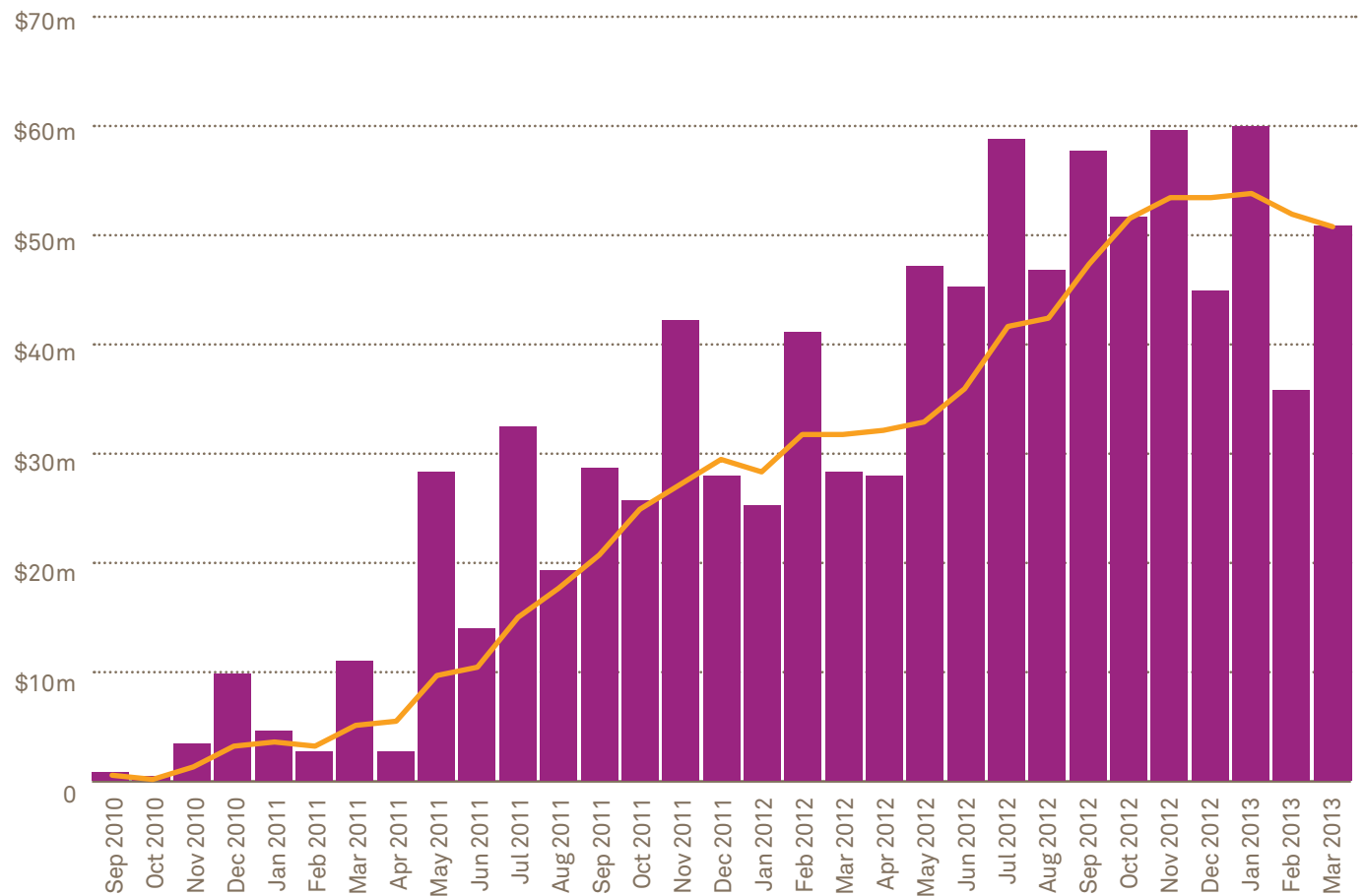
As the Canterbury region continues to shift from recovery to rebuild, we need to re-imagine our attitude towards attracting participation from 'the outside' and enthusiastically roll out the welcome mat for domestic and offshore investment. Christchurch has an opportunity to be one of the best small cities in the world for investing and doing business. Our focus must be ambitious, innovative and uncompromising.

Shaun Hubbard, Regional Manager – South Island, AECOM

Earthquake-related building consents

6 month moving average

Monthly earthquake-related building consents



Source: Statistics New Zealand

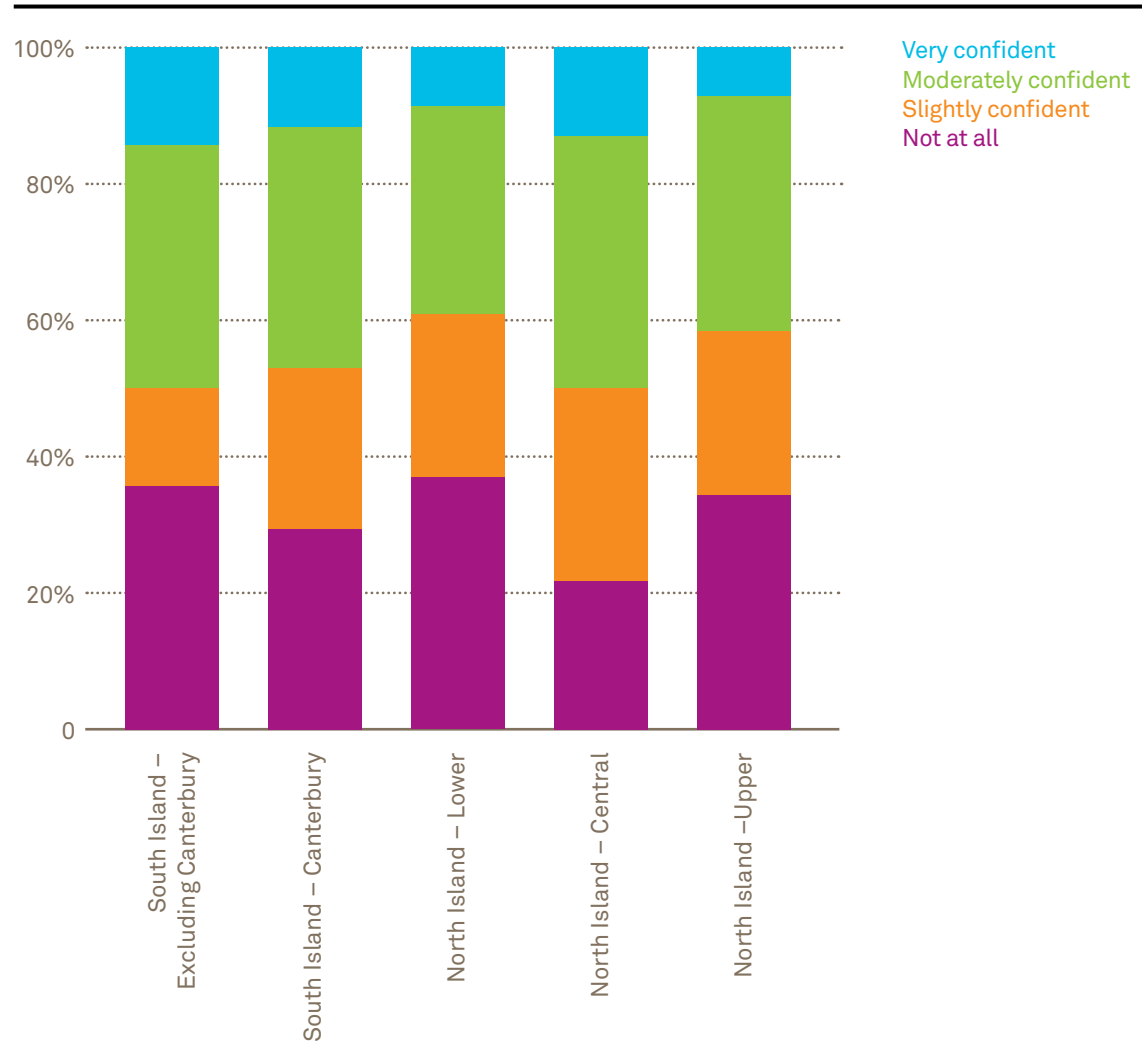
Procurement process

The enormous scale and complexity of the Canterbury rebuild continues to fuel debate about procurement. Expectedly, the sheer volume and complexity of the rebuild was always going to make this a key challenge, and this is echoed by respondents' perceptions.

Respondents' opinions reflected competing views on the procurement process in the Canterbury region. At a high level, the satisfaction: dissatisfaction split is approximately 50:50. Of some concern however, is the more deep seated lack of confidence outside Canterbury where the average level of "no confidence at all" in the procurement process was 28 percent. Within the Canterbury region, confidence in procurement was higher with 44 percent of respondents being "moderately confident" to "very confident" in the process.

Comments made by respondents also varied – concerns were expressed that the "closed shop nature of the traditional Canterbury market" was making it difficult for out-of-town businesses. A number of respondents also offered ideas about how to improve the procurement process. One suggested a "prequalification selection process may offer a better, less costly solution". Insurance delays and land development complexities, and notably "fractured ownership issues leading to small and inefficient developments", were also concerns commonly cited by respondents as slowing progress and making it difficult to plan ahead.

Respondent satisfaction levels with the rebuild procurement process



Competition levels

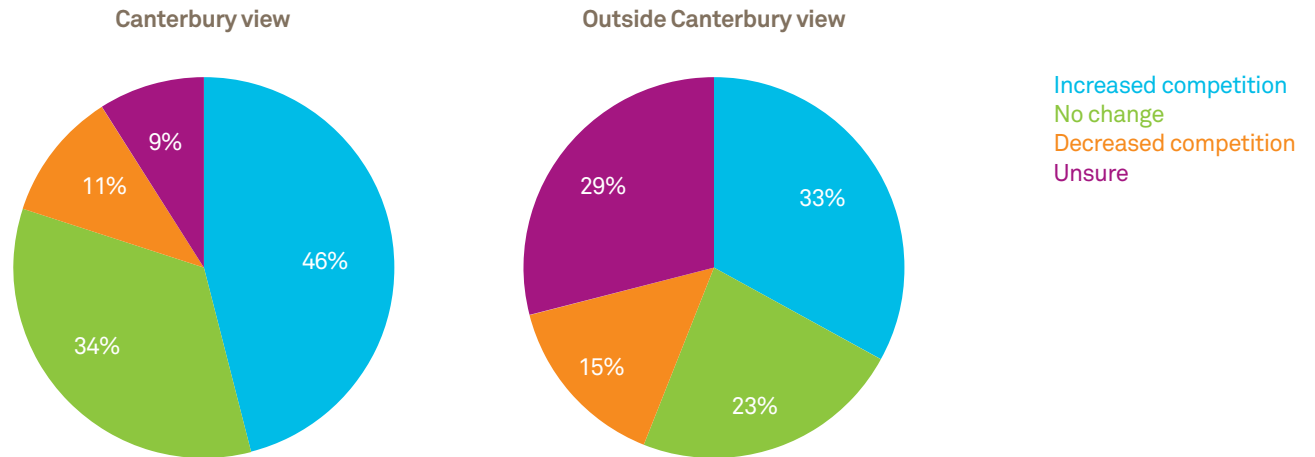
The majority of respondents see competition increasing for rebuild work, however, 15 percent of respondents who work outside of Canterbury thought the reverse was true and competition levels were actually declining.

There was a sense that in some cases there had been insufficient communication about opportunities for work in the rebuild. Across the nation 32 percent of respondents felt that these efforts could have been improved.

This was particularly the case in parts of the North Island, such as in the North Island – Central region where less than half (48 percent) believed there had been sufficient communication of opportunities to work on the rebuild.

Some were concerned that “procuring organisations don’t have long term procurement skills and a track record” while others felt the limited number of players in the market meant that new, innovative approaches were less likely to emerge.

Competition in the rebuild market



INDUSTRY CHALLENGES

New Zealand's infrastructure and buildings industries continue to face a range of obstacles to project delivery. Some of these top challenges are outlined below.

Skilled resources constraints

Resourcing remains the top challenge for the industry across the nation. Many are concerned about an “over-reliance on unskilled workers (at all levels)” and spoke of difficulty finding the right resources to do the particular kind of work now on offer.

In Canterbury, some suggested that this resourcing issue will (and should) curb the pace of the rebuild to a steadier and more achievable level.

Businesses are finding it hard to justify keeping staff on the “promise of work” later down the track. Some companies are supplying skilled workers to the current rebuild work, while hiring more graduate-level employees to take up the slack elsewhere in the country. This may become an issue once other markets across the country pick up further activity.

Another developing problem is a reduction in the number of players competing for jobs. This has been exacerbated by ongoing margin cutting and a desire to build at the absolute lowest cost.

Top industry challenges



■ The pace of the rebuild in Christchurch has been slower than anticipated six months ago. Although the peak of this work is anticipated to be at least a year or two away, we are starting to see some increased pressure on resources in the construction and property consultancy sector.

The pressure will gather pace and we anticipate that building costs will start to increase significantly once the rebuild gets underway. This will also have a knock on effect on resources and margins throughout the country. ■

Trevor Hipkins, Director New Zealand, Davis Langdon, an AECOM company

Local authority amalgamation trend

Regulatory efficiency and greater policy certainty continue to be cited by respondents as key to the success of the local authority market. The benefits of amalgamating various local bodies is clearly growing as a key issue.

Our survey demonstrated that 90 percent of industry respondents believe that the amalgamation of local authorities will continue, while a similar level believe this will be the case for water authorities (86 percent) and district health boards (83 percent).

Overall, 67 percent from the North Island supported this amalgamation trend. However, several were wary about this in the Auckland region and said it was too soon to tell whether the Auckland super city approach had been successful. Fewer in the South Island (51 percent) supported this amalgamation trend.

Over half of respondents (54 percent) in the public sector supported amalgamation, compared to 63 percent in the private sector. Some felt that it was necessary for local authorities but were more wary about water authorities and the threat of an “Auckland business model” being applied across the country. There was some concern about the corporatisation of larger councils, where the “focus is on making a profit rather than representing the local communities”.

Reasons for amalgamation offered by respondents

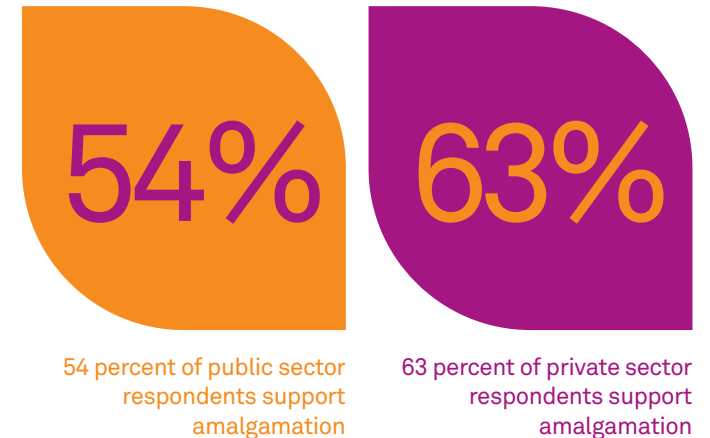
- key to economic growth
- scale has benefits for planning, but not at the expense of customer service
- too small a country to have so many councils
- efficiencies and greater consistency in fewer authorities
- less middle management

Reasons against amalgamation offered by respondents

- tendering fewer but larger contracts cutting out the smaller contractors
- cost savings have not been proven
- a decline in service levels
- expertise needs to cater to local areas
- one area will end up subsidising another

Maintaining quality

The dual pressures of having to reduce margins and maintain quality continue to plague the industry, with one reporting that “quality is being sacrificed for price.” One respondent urged the industry to “ensure that sustainable margins are put into the market place... and that quality is factored in when assessing tenders.”



FOREIGN INVESTMENT AND OPPORTUNITIES

Just over half of respondents agree that New Zealand should be doing more to attract foreign investment. There is a need for foreign capital and skills, but several believe in placing limits on the level of foreign ownership of land. One respondent recommended striking a balance: “Partnering with a maximum shareholding ensuring the majority shareholding remains NZ-based”.

Many believed that New Zealand is generally open to foreign investment. In order for projects to be attractive, however, they also need to be of a sufficient size to warrant the efforts required to be committed and learn about the local market.

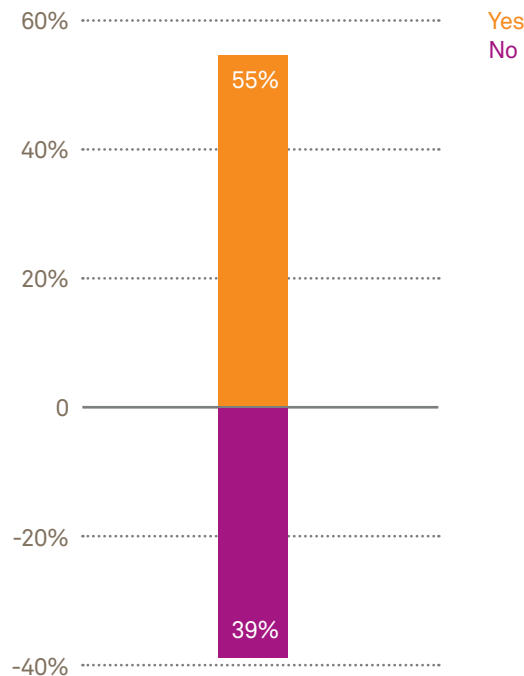
Respondents also commented on whether their organisations were outward-looking in terms of opportunities for growth beyond their local markets.

This NZ Inc strategy (developing relationships in overseas markets in order to generate future growth) was recognised by 56 percent of respondents as part of their organisation’s strategy. These businesses were focusing on offshore opportunities and developing relationships to build growth in this way.

The challenge for these businesses and NZ Inc in general is how we work together to facilitate profitable trade and off-shore entry.

There was also a significant level across the industry who only saw their local market as relevant and were not actively aspiring to reach a broader market. This was particularly true for contractors: 50 percent of those surveyed did not seek opportunities offshore.

Support for increasing foreign investment in New Zealand



The path to further foreign investment

- provide tax incentives
- relax regulations
- demonstrate economic and political stability
- more transparent forward work programme
- encourage joint ventures, PPPs and BOTs
- start major projects

Current foreign investment reservations

- threatens local companies
- not justified for purely short-term gains
- loss of profit overseas
- need to be more self-reliant as a nation
- restrictions need to be in place

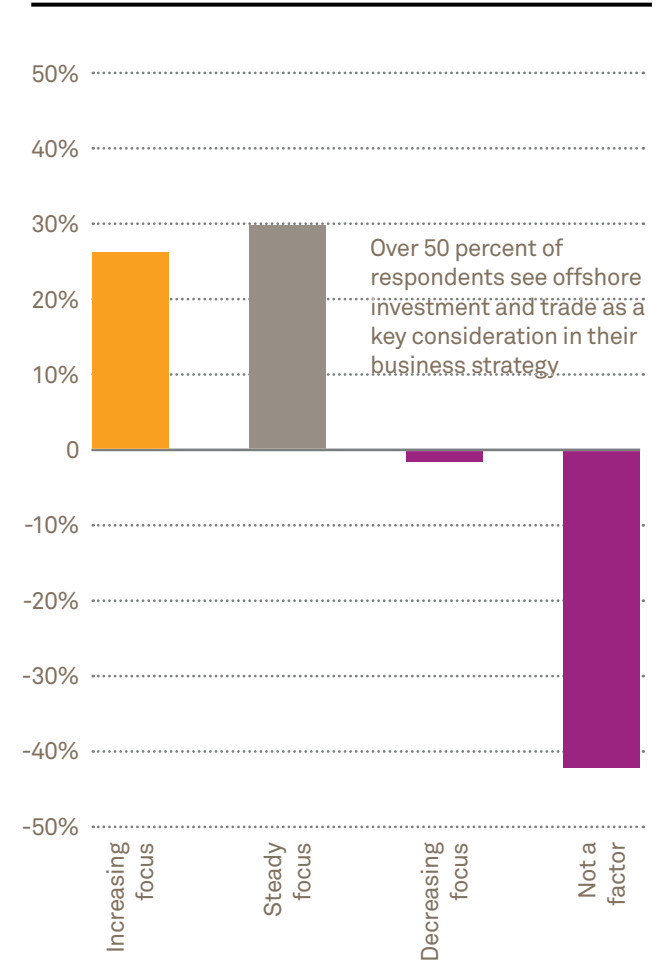
Infrastructure (civil or buildings related) is an enabler to continued economic transformation. New Zealand’s challenge is what to build and when, how to fund then repay. We need to actively use local funds, but we must get comfortable with and better at ‘winning’ offshore capital to meet our growth needs.

Dean Kimpton, Managing Director – New Zealand, AECOM

NZ Inc – where respondents see the opportunity

- Seismic capability
- Construction planning
- Asset management
- Value-added products, such as agricultural
- Assisting developing countries
- Transport of goods from production to export

Is NZ Inc a factor in your organisation’s business strategy?

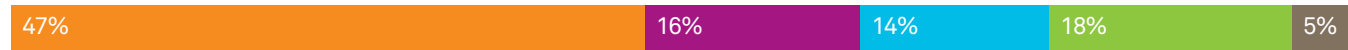


SURVEY SAMPLE – A BROAD VIEW

Survey participants are selected based on their role in the industry. Leading thinkers and decision makers are selected from the buildings and infrastructure markets.

Profile of respondents

Respondents by location



- North Island – Upper
- North Island – Central
- North Island – Lower
- South Island – Canterbury
- South Island – excluding Canterbury

Respondents by industry role



- Contractor
- Consultant
- Local government agency
- Architect
- Asset manager
- Private sector owner/developer
- Central government agency
- Financier
- Legal
- Government-related entity
- Other

Public vs private respondents



- Public
- Private

Market values

Investment market respondents by turnover



- \$0-200m
- \$200-500m
- \$500m-1b
- \$1b+

Delivery market respondents by revenue



- \$0-200m
- \$200-500m
- \$500m-1b
- \$1b+

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