

BUILDING  
CONSTRUCTION  
SURVEY

# Sentiment

MAY  
2012

NEW ZEALAND

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# THE REVIEW

In this report, we explore the results of our seventh Davis Langdon *Building Construction Sentiment Survey* in New Zealand. Although current conditions are still fairly poor, there is evidence of a positive upswing in the industry's outlook for the coming year.

An encouraging 85 percent of industry participants expect steady or increasing workloads over the next 12 months. In Auckland, 36 percent expect a rise in work levels, whereas in Wellington, respondents are more uncertain of future work supplies. Figures from Statistics New Zealand show that construction levels for 2012 are well below long-term averages and are yet to show a significant uptick.

Our results show architects remain cautious but contractors are more bullish about their prospects for winning new work. Aside from the work under way in Christchurch, respondents also identified encouraging signs of investor confidence thawing in the private-sector development market.

Meanwhile, the cost of bureaucracy, skills shortages and unsustainably low profit margins continue to affect the industry's ability to deliver projects. Although there are other indicators of optimism — such as an investment in more permanent staff — many are hampered by these ongoing challenges.

The industry continues to grapple with the constraints on the local economy caused by wider concerns about global financial volatility. This broader setting continues to play a significant role in the context of this measure of property- and construction-industry sentiment.

Although current conditions are still fairly poor, there is evidence of a positive upswing in the industry's outlook for the coming year.

# KEY INDICATORS

## Workload Outlook

85%

85 percent of respondents expect stable or increasing workloads over the next 12 months

## Future Opportunities

76%

76 percent of participants see existing building refurbishments as a prime opportunity over the next 12 months

## Industry Challenges

30%

30 percent of the industry continue to be frustrated by skills shortages and access to qualified, experienced labour

## Contractor Competition

58%

58 percent of respondents view main contractor pricing as extremely competitive

# WORKLOAD OUTLOOK

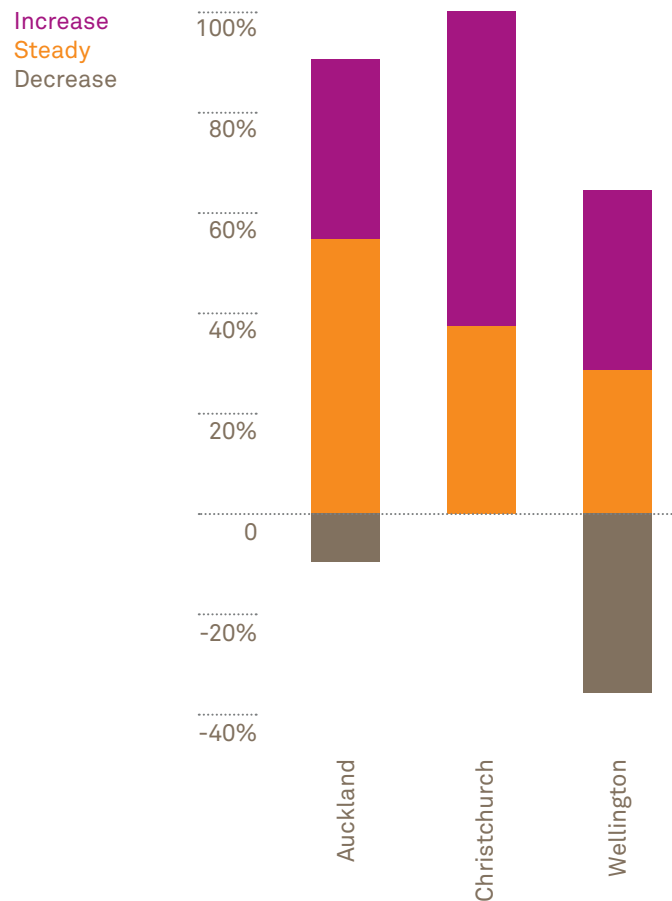
There are some signs of improving sentiment in New Zealand's building industry. On a national level, 85 percent of respondents expect stable or increasing workloads over the next 12 months — up from 80 percent in our previous survey.

The outlook is improving for the industry in Auckland, where 36 percent now expect more work over the coming year, while only 10 percent expect a contraction. In Wellington, respondents are more uncertain about what the next 12 months will bring.

The outlook in Christchurch remains consistent with the trend observed over the last year. However, there was a slight dip in the level expecting increased workloads — easing to 63 percent of respondents, compared to an average of 85 percent of respondents during 2011. Frustration with the protracted Christchurch Central City Blueprint process is adding to the uncertainty for investors.

One respondent described the impasse between commercial developers and prospective tenants as a “stalemate” caused by an inability to commit to new projects while the Christchurch CBD remained “little more than a construction site”.

**Workload Expectations by Region for the Next 12 Months**



■ The outlook is improving for the industry in Auckland, where 36 percent now expect more work over the coming year. ■

85%

85 percent of respondents expect stable or increasing workloads over the next 12 months

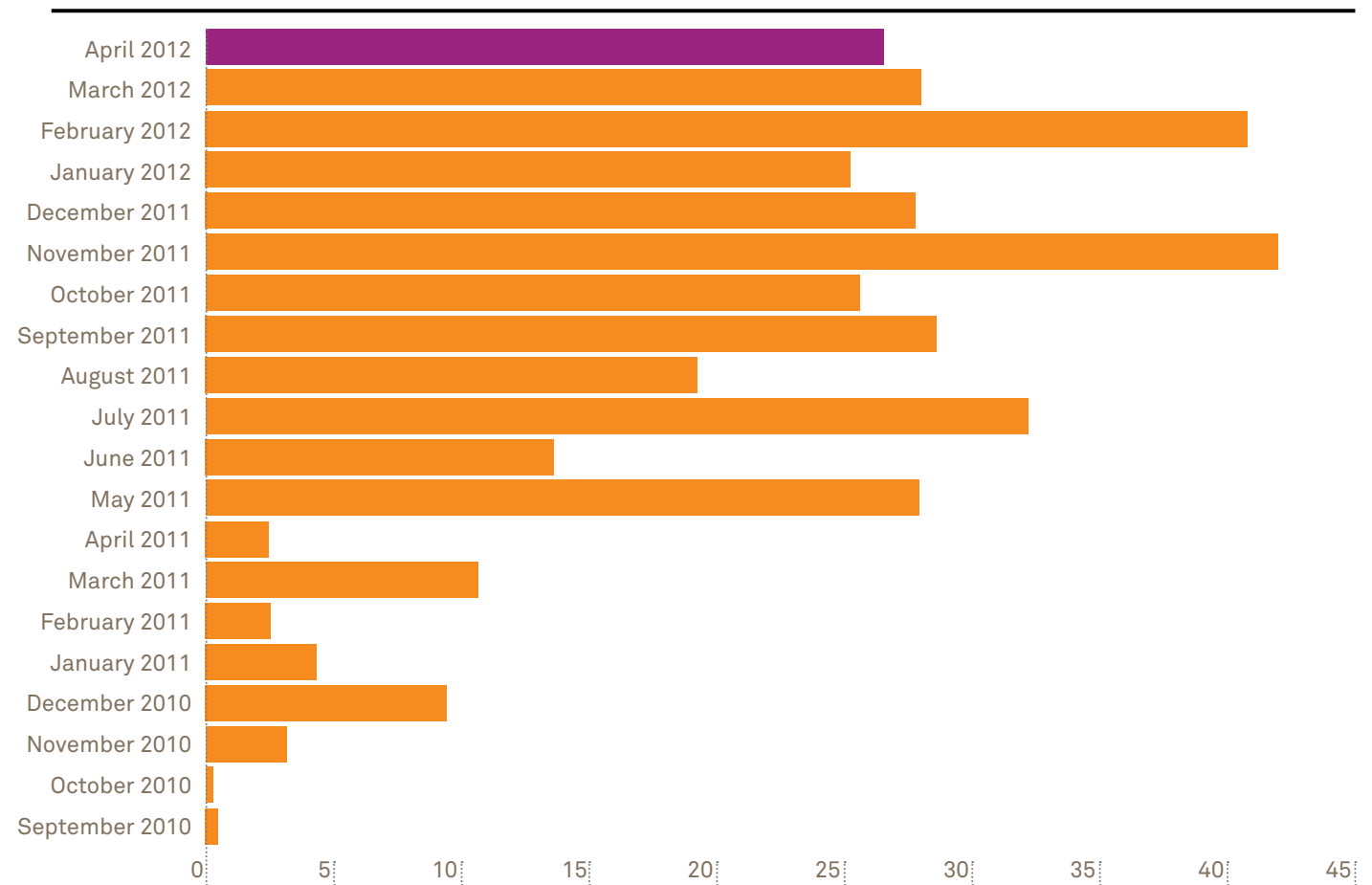
Statistics New Zealand data on the value of earthquake-related building consents demonstrate a steady approval of new work, with nearly \$121 million consented in 2012 so far, with 70 percent of this in the non-residential sector.

Nationally, construction levels remain well below the long-term average, with the minor rise in non-residential work attributed mainly to Christchurch and with a decline in residential work of 2.4 percent in the first quarter of 2012.

Aside from the work under way in Christchurch, anecdotal evidence suggests an uptick in planned developments, as one respondent was encouraged that “more people are now talking to us about future projects than they have in the last six months”.

**Earthquake-related building consents demonstrate a steady approval of new work, with nearly \$121 million consented in 2012 so far.**

### Earthquake-Related Building Consents Value (\$M)



# NEW BUSINESS

The perspective of various industry practitioner groups demonstrates the conflicting expectations about new business prospects for the remainder of 2012.

Main contractors are the most positive in their outlook at the moment: 67 percent expect new business levels to rise by more than 10 percent across the remainder of the year, compared to only 24 percent in our last survey.

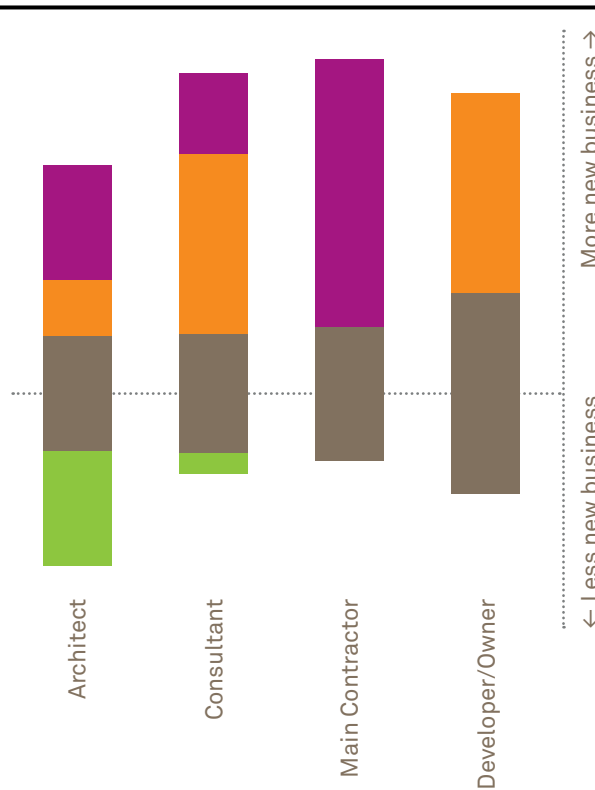
However, architects have had more varied expectations over the last year. In the final quarter of 2011, all expected new business levels to rise or, at the very least, remain steady. Now, however, architects are more polarised in their outlook, with 29 percent expecting a drop in new business levels, while 43 percent hope to see an increase.

There is a sense that worries about global financial markets are adding to unease on the local front, but, at the same time, others are seeing signs of the re-emergence of more private-sector investment.

**Architects are more polarised in their outlook, with 29 percent expecting a drop in new business levels, while 43 percent hope to see an increase.**

## New Business Expectations for the Next Six Months

Increase by more than 10%  
 Increase by less than 10%  
 Steady  
 Decrease by less than 10%



67 percent of main contractors expect new business levels to rise by more than 10 percent across the remainder of the year

# FUTURE OPPORTUNITIES

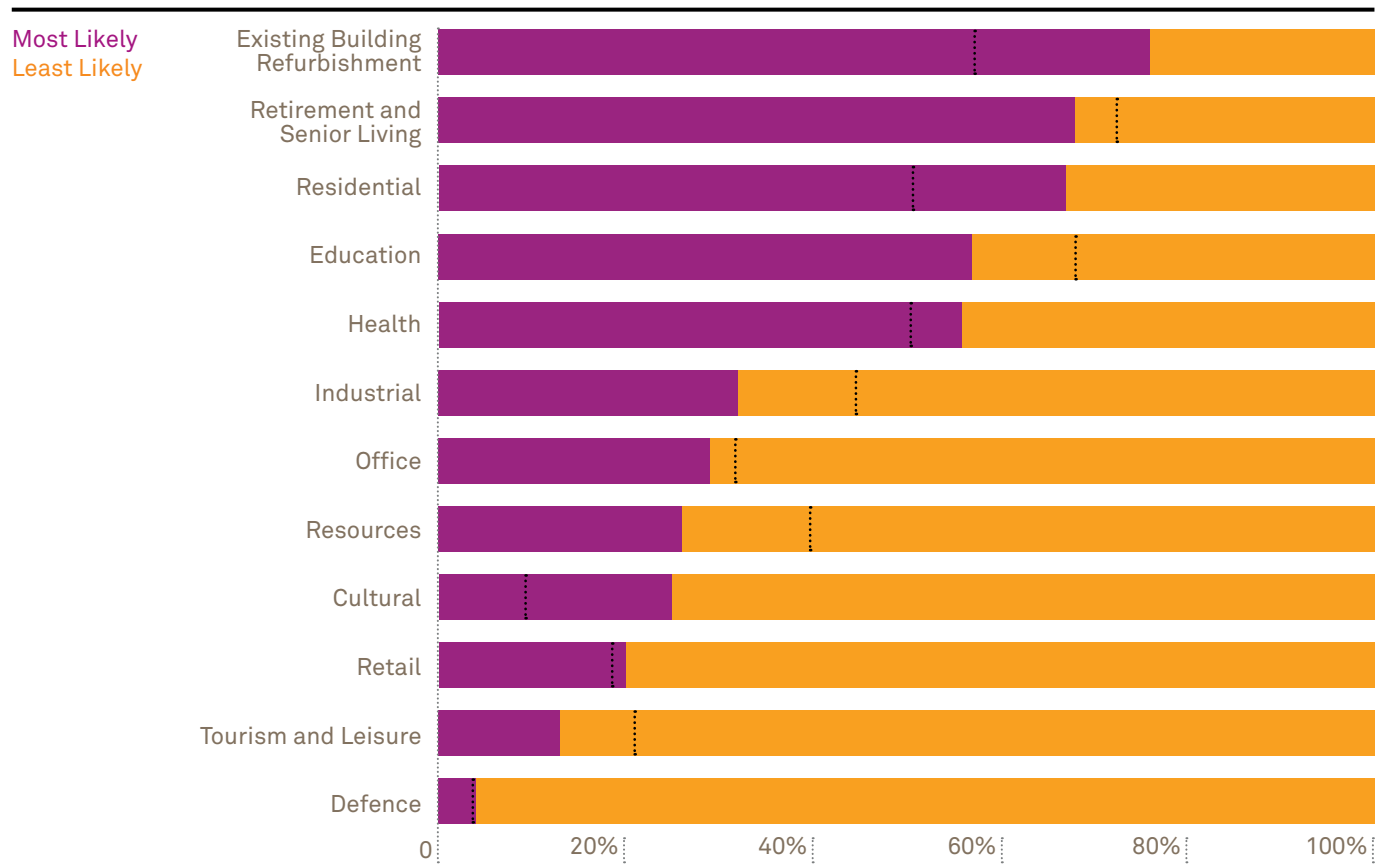
We asked industry participants about where they see the opportunities for growth emerging over the next 12 months.

Existing building refurbishments are the top pick for growth across the next year — selected by 76 percent of industry participants. Work in this area has been spurred on by the need to enhance buildings without having to seek finance for an entirely new building. There is also the need to act on seismic assessments of existing building stock across the country.

The retirement and senior-living sector remains high on the list of growth opportunities, while enthusiasm for residential developments rose from 49 to 67 percent. Meanwhile, the tourism and retail sectors continue to be some of the least favoured prospects.

**Existing building refurbishments are the top pick for growth across the next year — selected by 76 percent of industry participants.**

**The Sectors Most Likely to Contribute to Growth in the Next 12 Months**



Most likely position at December 2011

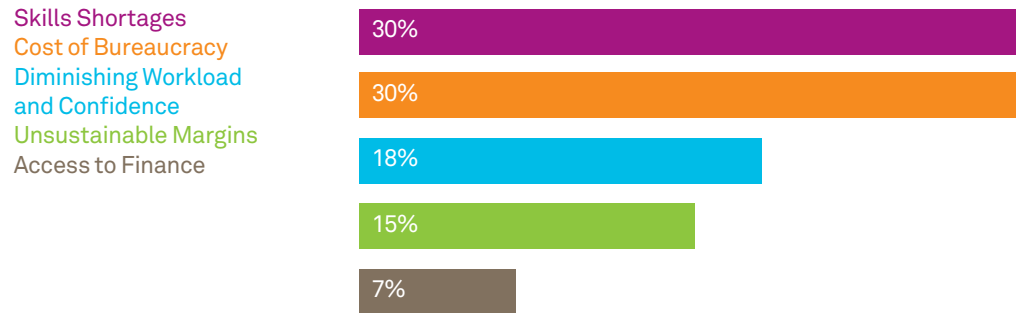


# INDUSTRY CHALLENGES



30 percent of the industry continue to be frustrated by skills shortages and access to qualified, experienced labour

## Prominent Industry Problems



■ ■ Tightening profit margins continue to affect the industry's ability to deliver projects. ■ ■

Many industry participants are concerned about the cost of bureaucracy and its negative ramifications for the industry. Recurring industry sentiments such as “high council development levies are making projects unviable” and “a lack of leadership from central government” persisted from last quarter’s survey.

Skills shortages and access to qualified, experienced labour continue to be a source of frustration for the industry. Respondents have also foreshadowed a looming skills shortage as the “Christchurch rebuild kicks in”.

The quantity of work available has improved marginally since the December survey. Industry points to a general lack of confidence and uncertainty as potential hurdles to increasing the supply of available work.

Tightening profit margins continue to affect the industry’s ability to deliver projects, with many respondents indicating that continually low margins were “putting some companies in financial difficulty” or, worse, causing them to fail. This is adding to the industry’s shortage of expertise and could “destroy the industry resource base”.

Concerns about accessibility to finance remain, stemming largely from “the uncertainty in Christchurch and lack of current investment” affecting market conditions.

# COMPETITION AND LABOUR

Competition for work remains strong. There was a significant lift in competition levels compared to the December quarter for main contractors, rising from 46 to 58 percent over the quarter.

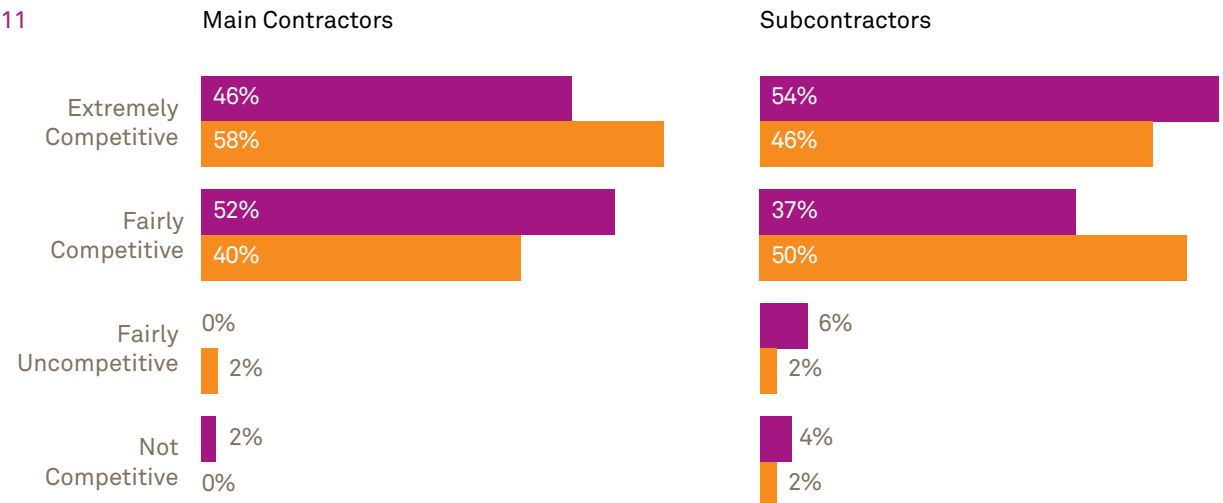
By contrast, competition eased slightly for subcontractors compared to the last quarter, with 46 percent now classifying market conditions as extremely competitive, compared to 54 percent in the previous survey.



58 percent of respondents view main contractor pricing as extremely competitive

## Competition Levels

December 2011  
March 2012

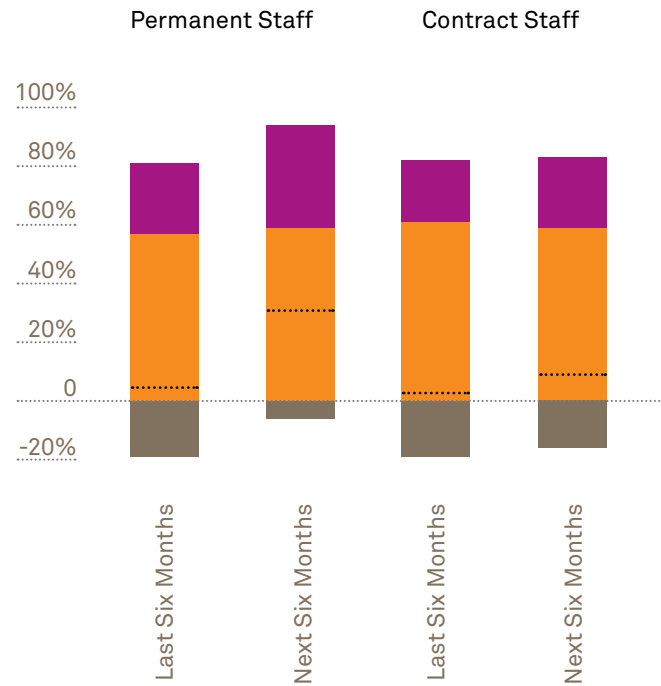


94%

94 percent of respondents expect permanent staff numbers to increase or remain steady

**Staffing Expectations**

Increase  
Steady  
Decrease



..... Net expectation level

In this survey, 19 percent of respondents reported a loss of permanent staff in the last six months, down slightly from 22 percent in the December quarter. Looking ahead, the industry expects a decline in the number of permanent staff lost, with 94 percent of respondents expecting numbers of permanent staff to increase or remain steady.

Contract staff numbers decreased in the three months since our last survey, with 19 percent of respondents indicating they had reduced their use of contract staff, more than double the 8 percent recorded in December.

There will be a small increase in the retention of contract staff in the coming six months, according to 83 percent of industry respondents.

These results indicate that the industry is feeling more confident about long-term revenue projections throughout 2012, and that it is investing more heavily in permanent staff.

This report is part of our suite of biannual industry survey reports:

- *Australian Infrastructure Construction Sentiment Survey*
- *New Zealand Infrastructure Construction Sentiment Survey*
- *Australian Building Construction Sentiment Survey*
- *New Zealand Building Construction Sentiment Survey.*

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