

# Tony's 2024 Construction Market Overview for Builtin Insurance Brokers

**Tuesday 13<sup>th</sup> Feb '24**

*Now retired, Tony held senior management roles at one of New Zealand's largest building materials merchants and has been in the industry for more than 50 years. Consequently, he has a deep understanding of the dynamics of the building industry and its key economic drivers.*

*The following are Tony's speaking notes from Builtin's Derisking Your Construction Business in 2024 seminar, held on 13<sup>th</sup> February at the Tauranga Yacht Club.*

Thank you for coming along today – I am a friend of Jim And Keryl not a public speaker – have worked for a corporate for 50 yrs and have seen and experienced few things in my working life - over the next 20 minutes I will share with you some thoughts and comments and stats and status of the market - focusing around what I believe are our economic drivers that influence outcomes both good and bad – I will also cover some trends evolving in the building and construction sector and finish with some take outs which really are good basic principles to think about which you may choose or already have put into practice in your business.

To say things are easy is an understatement - not a lot of highlights on the economic front – instability issues- global tension- internal division, global division which can only cause disruption and distraction in dealing with the main issues and challenges we face as a country – most of what I talk about is bit negative to start and has leaning towards the building and construction segments but applicable in some way to all.

Not a lot of fun in business – fair to say it's really tough out there, however I suppose when has business ever been easy - For me a bright spot in the last few months is a change of Govt – not bright for everybody – but in fairness we have seen poor management in a lot of areas by this previous govt and local govts not exempt.

– there has been global influences experienced, a pandemic so in all I suppose we are paying the price now for poor performance in a lot of areas –

importantly people need a reason or something positive for us all to turn the corner – hopefully this change of Govt brings confidence back into a pretty tough market- so we will be looking with interest how this new coalition lot implement initiatives. Whatever is rolled out is going to take time to materialize before we see significant improvement. hopefully sooner than later.

In looking at the market there are 6 major economic influences and challenges that will affect favourable outcomes over the next couple of years – Inflation, Interest Rates, Immigration, Infrastructure Deficit, Cost of living Crisis, International Turmoil – (conflict).

### 1. Inflation

- a. Global inflation is easing back – for us we are stubbornly sitting 5% at end 4<sup>th</sup> quarter – more than double the RB target - we were sitting 6% Q 2 so heading in the right direction – but damage has been done – building costs over the past 2 years have skyrocketed driven by demanding and reckless spending - I think we are managing inflation now but it will take some 18 to 24 mths to get things under control – so hard times ahead – all headwind
- b. What has been The main contributors to inflation is food, housing cost of/utilities, Fuel, Transport, lower productivity, demand, money availability – also migration levels have hindered rather than helped controlling inflation – AK driven.

### 2. Interest Rates

- a. Interest rates remain relatively high with the OCR sitting at 5.5% and not a lot of relief in sight as inflation reduces ever so slowly – I can't see us in the next 12mths getting down to a level where meaningful interest rate reductions will help those struggling – in fact I don't think we are at the bottom with maybe a couple of hikes that could see further lifts that will cripple some although banks are looking at initiatives to assist – however for some it's a matter of how long can they hang on – drawings on kiwi saver for hardship is up over 50% with \$25m withdrawn from savings in the pasts 12 mths – also there is \$318b of household debt which is due to be refixed in the next 12mths – I see a big increase in mortgagee sales unless the banks step in and assist.
- b. For the building industry Interest rates are a big driver – right now the second hand market is cheaper than building new – normally the

other way round – however prices for second hand houses are increasing demand is improving with a forecast could go up as much as 9% by end of year – but I can't see that – the problem is all the hype drives FOMO plus migrants needing to be housed is creating rent hikes and push up pricing - mainly metro – as the second hand market moves up it will help new builds so light at the end of the tunnel building industry later this year.

### 3. Immigration

- a. The flood gates have certainly opened in 23 - 237k people coming into NZ and 118k left – gain of 118k the highest on record – a lot of east Asians in the mix with around 60% settling in the AK region. Interesting to see what this coalition Govt does with this trend which is putting huge stress on infrastructure.

### 4. Infrastructure Deficit

- a. This is a biggie – how do we fund what's needed – so much need right across the country – councils are struggling to balance the books and keep rate rises in check – how this govt manages initiatives is going to be huge as we are so far behind the eight ball following reckless and wasteful spending by previous govts – this is not an easy fix and will take time.

### 5. Cost of Living Crises

- a. Average Household increased 7.4% in the 12mths to September 23 quarter – this follows a 7% increase to June quarter – higher prices for interest payments and grocery food items were the main contributors – labour shortages are slowing down economic growth and exacerbating price increases – 30% of businesses have been advertising vacancies for over 6 mths – factors such as our isolation currency and economic structure contribute to the overall high costs.

### 6. Global Turmoil – instability

- a. The Ukraine and Gaza wars are unrelenting with fear they will escalate – China US Relations at an all-time low – conflict in the Red Sea – all this and us piggy in the middle having high trading needs and ties with aggrieved parties – add in the Donald trump equation

“maker or breaker” regardless as I see it the world is on a knife edge – let’s hope diplomacy prevails.

For the building industry consents don’t make good reading – number new dwellings down 25% to 37k year ending dec 23 – big drop-off from the 50k year before - non residential was only down 1% supported by a strong commercial segment – still.

The residential numbers are still not a bad number considering what they were 4 yrs ago but there are a lot of building companies out there really hurting – GHB segment some have reported they are down over 60% others have not sold a house since may last year – some are doing okay, brands that are well capitalized will ride the storm by scaling back, dealing with what they have got – Some are stretched, carrying debt in specs land – and are short of cash -a lot out there hoping they can they hold out – tide to turn - Im not sure it will come quick enough for some and we could see a n increased number of defaults and liquidations as cash runs out – the small independent builders will ride it through as they arnt carrying large overheads like the franchises – Regardless - it does emphasize the importance of having robust risk management initiatives as part of your plans.

Housing costs are a big issue for NZ - compliance still being a big factor – the sq metre rate is around \$3900 about 35% increase - add in land and packages are up around the \$1m mark – Queenstown is even worse some saying cost is around \$8k sq metre – so the handbrake is on affordable housing.

As capital tightens, I see less investment in large complex multiplex apartment type projects within cities opting for swing back to single level housing on greenfield on the edge of our cities – cost less – less risk for lending institutions.

The housing market is bit of a knife edge – and no easy fix other than we are under building – and will need Govt initiatives to get things going - I think it is important to watch the key market indicators – confidence , interest rates, real estate second hand market, build cost and land affordability- all these will be critical in turning the housing market around- businesses will need to have very good value propositions – visual point of differences if they are to succeed.

Commercial has been strong with the construction sector reporting strong portfolios – commercial investors have enjoyed good times – hence consents holding pretty much up - lakes is a good example - how that has filled up in the

last couple of years – in saying that things are slowing – sorry not a lot of positive so far.

Manufacturers in the building sector are reporting pretty tough times however have adjusted to market conditions – and that’s a key take out managing the downside making smart moves in tough time s- adjust your business to suit market conditions – don’t wait – carrying unwanted costs – losing \$\$\$\$.

The next 12 mths will be key on how quickly this govt gets its initiatives underway to stimulate building activity – previous govt had initiatives but some couldn’t execute – hopefully this lot will do better.

### What does the building future look like?

I think the industry will continue to evolve with still large labour shortages however some trends to evolve will gain momentum – technology is a big one that will provide opportunities and create the POD they need in their businesses – people are looking for that POD why choose them over someone else so we will see more focus from the industry so they stand out – some trends I see that create emotional touch points.

1. Sustainability and green building – with concerns over climate change and environmental sustainability there will be significant push on green building focusing on energy and efficient materials
2. More technology usage to bring about more efficiencies to builders sites – smarter ways to build
3. Robotics – automation featuring – things like 3D printing – automation will generally bring about efficiency, accuracy and safety
4. Prefabrication and modular - won’t go away and we will see companies continuing to experiment with these initiatives
5. Building Information Modeling – BIM – Having a shared knowledge of resources of how the business functions - so informed decisions can be made – this in turn will prove essential in enhancing better building design, more cost effective construction, documentation and project management facilitating extensive communication across all stakeholders

6. Material innovation – more plastic composite – engineered woods developed and marketed – see improvement in competitive innovation without compromising quality
7. Safety – there will be no shortcuts here – safety is becoming more of a culture in business rather than just compliance – business of safety is becoming habitual
8. Investment on tech and innovation – surveillance systems to keep people safe will continue to evolve
9. More focus on data analytics – information systems – being well informed makes better decision making

Companies embracing some of these trends will be in a better position to navigate through a pretty challenging market.

Just to finish off – some take outs – or some basic business principals which when applied can very much assist positive outcomes so.

1. Keep close to your customers – ever a time it is now - listen to what they are saying – focus on the touch points – repeat what’s important – shows your listening
2. Reposition yourselves strategically for the next economic cycle – review what is working and what is not – be bold and make changes now that will enable your business to come out better than your competitors when the market turns
3. Be visual – be seen – always looking to get a better understanding of what’s going on – Watch for signals - what are there critical needs and concerns – things that are important to them and you – then do something - take action - also don’t be afraid to ask questions and challenge the status quo- maintain a focus of being there to help
4. Financials – know your numbers – understand and monitor closely – major driver of your business particularly cash flow – do your health checks regular- early intervention can have positive outcomes – also mitigate risk – if the worse happens what is you plan – if you don’t have one - make a plan
5. Communication – increase across all stakeholders – lot of knowledge out there - lack of communication is the root cause of many failures – record discussions particular ones that require some action and follow up – avoids arguments later

6. Add value – be seen as adding value rather than just taking the \$\$ - that extra bit of value can help customer loyalty and business sustainability
7. Manage your cost – be targeted focus on the essentials not just the nice to haves - Adjust to the market
8. Monitor the market segments that affect your business and your local economy – what’s working what is not – focus and invest where the \$\$ and opportunities are - you will make better decisions with accurate knowledge of what is happening where and when
9. Continuous improvement – have it as a mandate/goal - good business is about getting better – upskill employees, technology, keep polishing your business – small incremental steps will get there at a far cheaper investment than taking quantum leaps
10. Discipline – maintain your disciplines in the business – be strong and consistent with your systems and processes – review on a regular basis as things can change so be flexible on your feet – also in difficult time it is easy to give in – maintain your disciplines don’t compromise
11. Culture – don’t lose sight of the culture – it is who you are – once gone hard to get back - so needs work everyday - no different from other key drivers - and importantly have some fun – “fun factor” - take it when you can as there must be a balance between business and pleasure.

Thanks for your time.

*Tony Longhurst*