



FORECAST REPORT 82

NEW ZEALAND TRENDS IN
PROPERTY AND CONSTRUCTION

FIRST QUARTER 2017

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With a network that covers the globe and a heritage spanning over two centuries, Rider Levett Bucknall is a leading independent organisation in cost management and quantity surveying and advisory services.

Our achievements are renowned: from the early days of pioneering quantity surveying, to landmark projects such as the Sydney Opera House, HSBC Headquarters Building in Hong Kong, the 2012 London Olympic Games and CityCenter in Las Vegas.

We continue this successful legacy with our dedication to the value, quality and sustainability of the built environment. Our innovative thinking, global reach, and flawless execution push the boundaries. Taking ambitious projects from an idea to reality.

FORECAST 82

Prepared by the New Zealand Institute of Economic Research (Inc.) exclusively for Rider Levett Bucknall, Forecast is produced quarterly and provides detailed local construction market intelligence and knowledge.

CONSTRUCTION MARKET INTELLIGENCE

Forecast is supplemented by Rider Levett Bucknall's construction market intelligence publications: the International Report, regional (including the Oceania Report) and country specific reports.

KEY POINTS IN THIS ISSUE

AUCKLAND CONTINUES TO LEAD THE WAY IN CONSTRUCTION GROWTH

Construction demand remains very strong, led by Auckland and its halo regions reflecting the effects of continued surge in net migration.

DEMAND FOR STANDALONE HOUSES REMAINS VERY STRONG

Standalone houses remain most popular, but demand for higher-density housing also picking up.

NON-RESIDENTIAL CONSTRUCTION DEMAND EASES IN RECENT MONTHS

Demand for education and health facilities has eased in recent months, but from very high levels.

NO MORE INTEREST RATE CUTS THIS CYCLE

The Reserve Bank cut the Official Cash Rate to 1.75% and indicated it did not expect to cut interest rates further. With inflation showing signs of turning we do not expect any further easing from the Reserve Bank. The Federal Reserve's continued tightened should put downward pressure on the New Zealand dollar.



Intelligence

Rider Levett Bucknall's Smartphone app.

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BUILDING ACTIVITY TRENDS

Construction demand remains robust, underpinned by continued strong migration-led population growth. There has been some easing in non-residential consent issuance in recent months, but this follows a period of very strong growth particularly for the construction of education and health facilities. Beyond the monthly volatility, we expect strong population growth will underpin underlying demand for construction.

The turnaround in migration flows between New Zealand and Australia has been a key driver of strong net migration in recent years. The more favourable New Zealand labour market outlook continues to encourage Kiwis and Australians to move to New Zealand, as well as discourage Kiwis to move across the Tasman. The net inflow of almost 2,000 from Australia contrasts with the long-term average of an annual 16,000 outflow to Australia.

There were net migration inflows into all the regions over the past year, with inflows into Auckland remaining

exceptionally strong. Net inflows into Auckland totalled over 33,000 in the past year, suggesting over 11,000 new dwellings are required just to keep up with net migration inflows alone. Although dwelling consent issuance in Auckland continues to surge, at under 10,000 over the past year it still falls short of the increased demand from migration.

Net migration inflows have also picked up markedly in Bay of Plenty, Wellington and Otago over the past year. Tourism spending has boosted economic activity, created jobs and encouraged people to move to these regions.

These net migration flows provide some indication of housing market pressures across the regions.

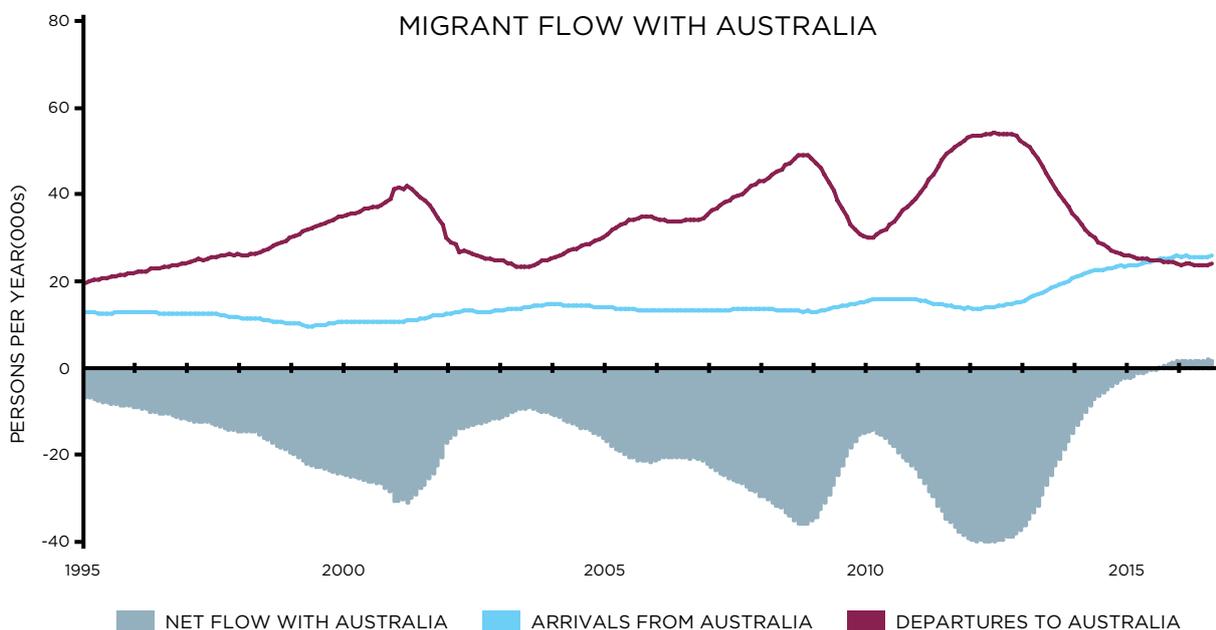
Besides the continued surge in residential construction demand in Auckland, demand has also risen strongly in the “halo” regions of Waikato and Bay of Plenty reflecting the spill-over effects of strong population growth in Auckland.

Residential consent issuance has also picked up in Wellington, as strong house price growth over the past year encourages more housing supply in the region.

In contrast, house-building demand in Canterbury continues to ease, as the residential part of the earthquake rebuild nears completion. We expect further easing in residential construction in the region over the coming years, although it should remain high relative to historical averages.

Non-residential construction demand shows signs of easing in recent months, as consent issuance for education and health facilities decline following a period of strong growth. Demand for commercial buildings also eased, despite improving business confidence. Despite this near-term softening, we expect strong population growth will support underlying non-residential construction demand over the next few years.

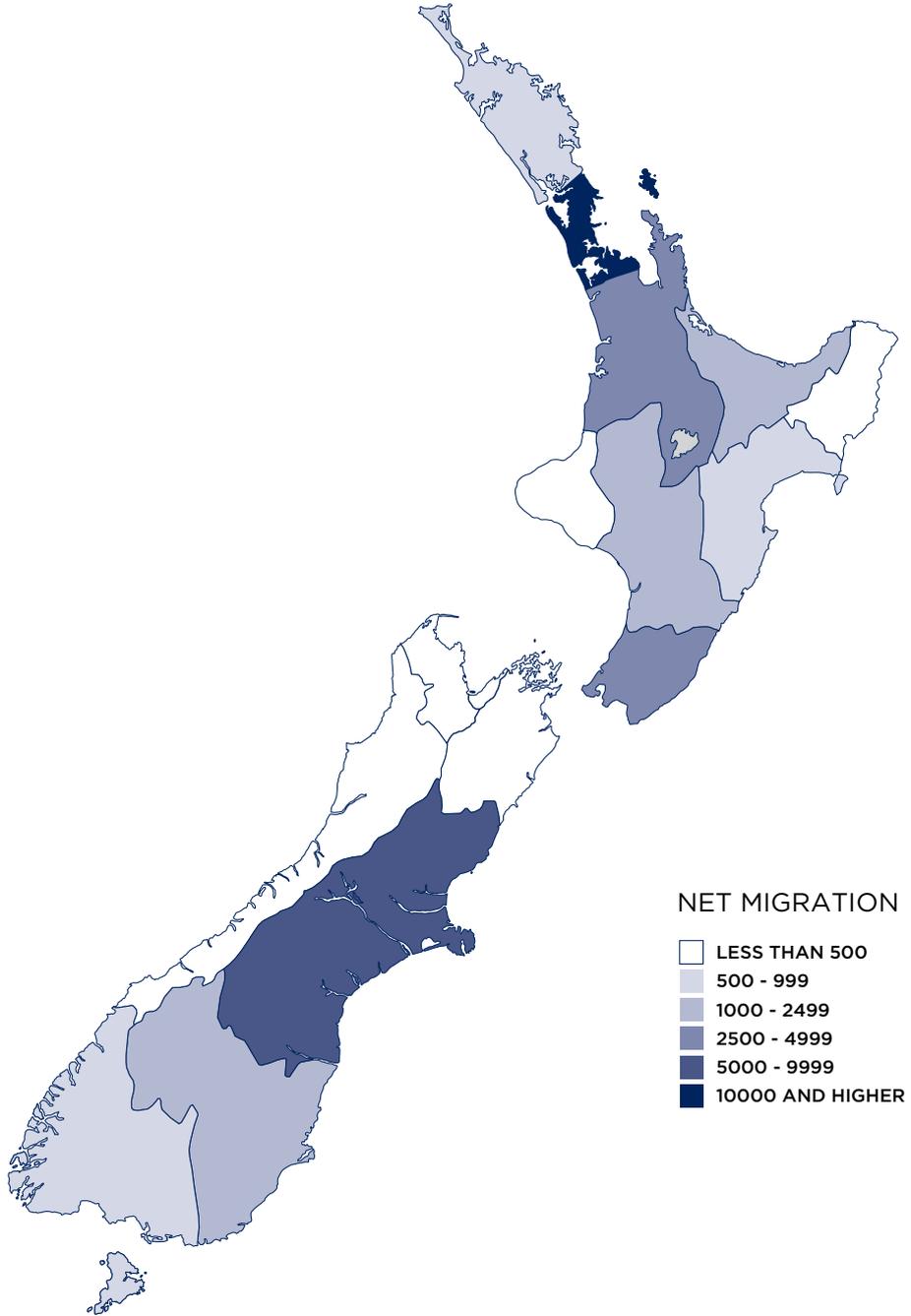
FIGURE 1
NZ CONTINUES TO ATTRACT NET INFLOWS FROM AUSTRALIA
PERMANENT ARRIVALS AND DEPARTURES BETWEEN NZ AND AUSTRALIA, ANNUAL 000s



Source: Statistics NZ, NZIER

FIGURE 2
MIGRATION INFLOWS CONCENTRATED IN AUCKLAND

NET MIGRATION BY REGION



Source: Statistics NZ, NZIER

BUILDING ACTIVITY OUTLOOK

ECONOMIC BACKDROP

There remains solid momentum in the New Zealand economy, which should provide a buffer against the recent shocks in the economy. Recent events have introduced more than the usual uncertainty into the economic outlook. The earthquakes, centred in Kaikoura and Seddon but reverberating throughout the country (particularly Wellington), have disrupted business activity and caused substantial damage to infrastructure and buildings. The total cost of the rebuild from this round of earthquakes is uncertain given the full extent of the damage has yet to be assessed. With capacity constraints already evident in the construction sector, the addition of earthquake rebuilding activity is likely to mean a more protracted construction cycle.

The Kaikoura earthquakes are likely to dampen activity in the region, and the extent to which these effects persist for its economy will depend on how quickly key infrastructure linking the region to the rest of New Zealand can be repaired. For the New Zealand tourism sector as a whole, the impact of the earthquakes are likely to be modest. We continue to expect construction and tourism to be the key drivers of growth in the New Zealand economy. We forecast annual GDP growth to average over 3% over the next five years.

INTEREST AND EXCHANGE RATES

While inflation at 0.4% is still well below the Reserve Bank's 1-3% inflation target band, there are signs inflation has turned a corner. We expect the Reserve Bank will not lower the OCR below 1.75% given the diminishing risk of inflation expectations remaining persistently low, as well as the solid growth outlook for the New Zealand economy.

The New Zealand dollar has eased in recent months, largely reflecting US dollar strength as markets become increasingly confident the Federal Reserve will raise interest rates. A strengthening US labour market and rising interest rate expectations globally has increased expectations of interest rate increases in the US. The Federal Reserve lifted its policy rate in its December meeting and indicated three further interest rate increases were likely over 2017. We expect further easing in the New Zealand dollar as the yield advantage New Zealand has over the US reduces.

BUILDING INVESTMENT

Building Work Put in Place shows non-residential construction was flat over the September quarter, following robust growth over the first half of 2016. The NZIER Quarterly Survey of Business Opinion architects' measure of own activity shows an easing in Government work, but further strengthening in the pipeline of residential and commercial construction work. Although migration-led population growth and tourism activity should underpin strong demand for commercial buildings including offices and hotels over the next few years, increased difficulty in accessing funding might hinder some development projects.

BUILDING CONSENTS

Non-residential building consent issuance has softened in recent months, driven by an easing in education and health facilities, albeit from high levels. There was also some easing in consent issuance for offices, despite prime office vacancy at historically low levels. Beyond the monthly volatility, we expect population growth will support a strengthening in non-residential construction demand.

The average value per square metre consented has continued to rise. While this measure is very volatile, it suggests strong construction cost inflation.

BUILDING CONSENTS BY SECTOR

Despite the easing in recent months, education and healthcare facilities remained the top two drivers of non-residential construction demand over the past year. This reflects the effects of strong population growth, which is boosting demand for new schools and healthcare facilities. In addition, alterations of education buildings made a substantial contribution to growth over the past year.

Although consent issuance for office buildings was flat over the past year, this reflected a decline in alterations offsetting growth in new office construction. Vacancy for prime

office space has fallen to historically low levels, particularly in Auckland, with rents starting to lift. This is encouraging the development of new office buildings. But with banks tightening access to credit in recent months in light of funding pressures this may hinder the extent to which new office developments can ramp up.

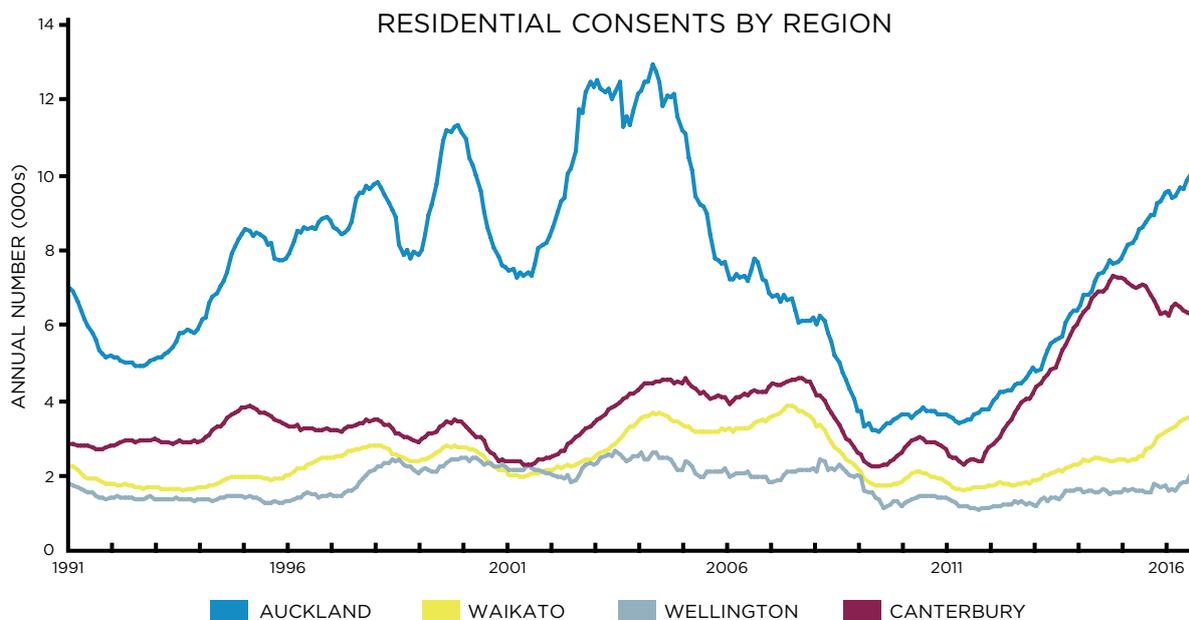
Earthquake rebuilding and strengthening activity will likely drive non-residential construction demand over the next year.

Strong population growth underpin many of the longer-term trends:

- Office growth to accommodate the higher number of workers.
- Public sector spending on education buildings, along with rebuilding activity.
- Capacity constraints in the tourism sector will drive demand for new accommodation buildings.

FIGURE 3

STRONG POPULATION GROWTH UNDERPINNING RESIDENTIAL CONSTRUCTION DEMAND
ANNUAL CONSENTS, NUMBER 000s



Source: Statistics NZ, NZIER



BUILDING CONSENTS BY REGION

Demand for non-residential construction in Auckland has surged over the past year, reflecting strong growth in demand for education and healthcare facilities, as well as office buildings in the region. With net migration into Auckland remaining very strong, this should continue to underpin robust growth in non-residential construction in the region over the coming years.

Non-residential construction demand has also grown strongly in Otago, driven by increasing demand for education facilities, and to a lesser extent, accommodation and office buildings.

In contrast, non-residential construction demand in Canterbury has dropped, although remains at historically high levels. Further

easing is expected over the coming years, but earthquake rebuilding in the region should underpin non-residential construction demand at a relatively high level.

We expect non-residential construction demand to be driven by the tourism-intensive regions given tourism remaining a key driver of economic activity and jobs growth.

FIGURE 4
CONSTRUCTION COSTS CONTINUE TO RISE WHILE CONSENT ISSUANCE EASES
NON-RESIDENTIAL CONSENT ISSUANCE AND VALUE PER SQUARE METRE

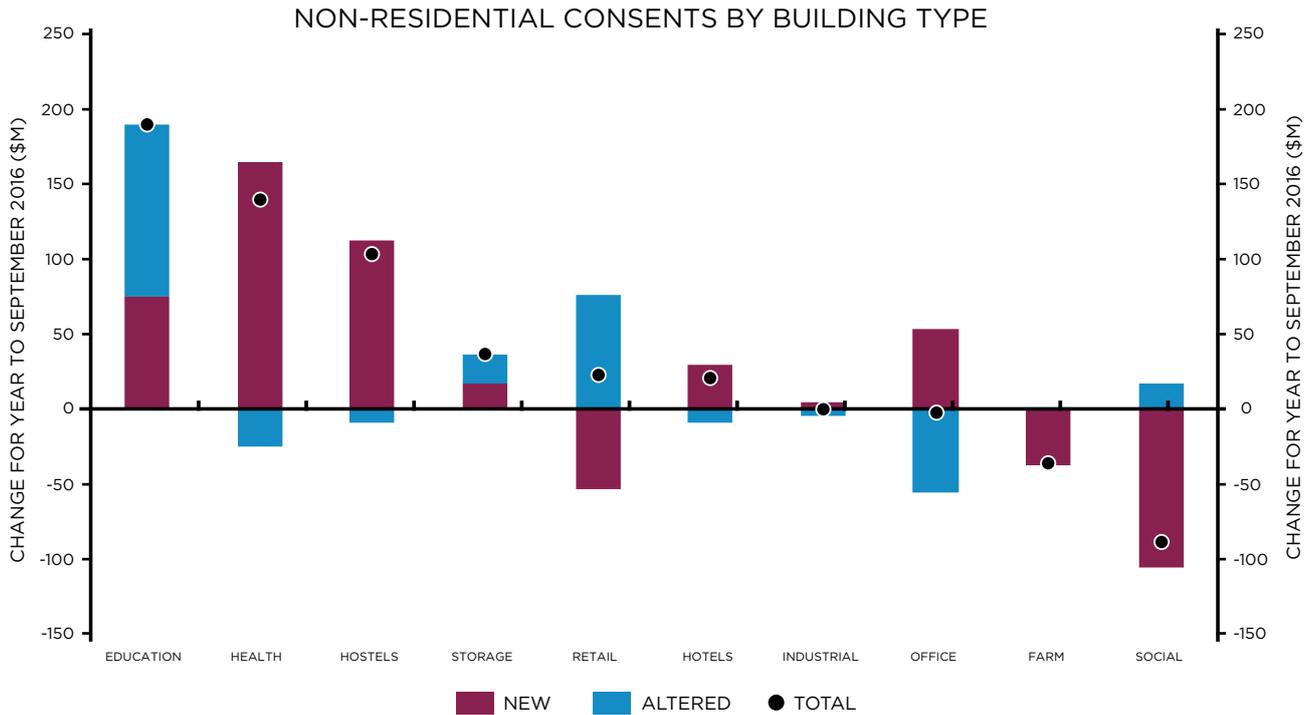


Source: Statistics NZ, NZIER

FIGURE 5

EDUCATION AND HEALTH FACILITIES REMAIN TOP TWO DRIVERS OF NON-RESIDENTIAL CONSTRUCTION DEMAND GROWTH OVER THE PAST YEAR

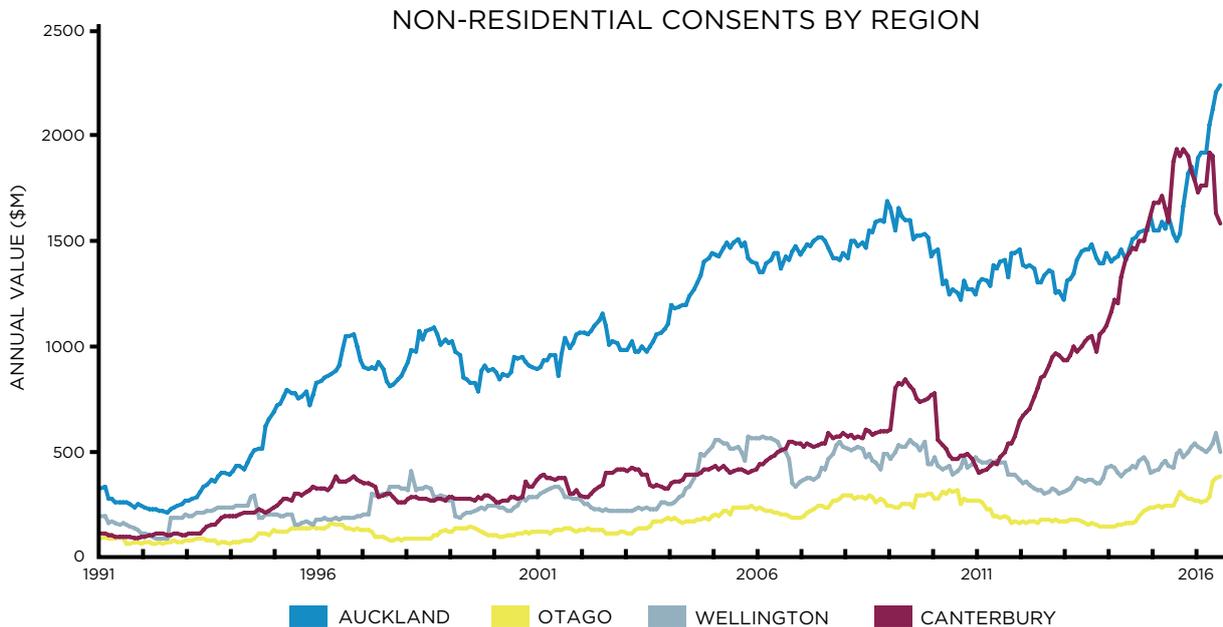
ANNUAL CHANGE IN CONSENTS, \$M, YEAR ENDED SEPTEMBER 2016



Source: Statistics NZ, NZIER

FIGURE 6

VERY STRONG PIPELINE OF AUCKLAND NON-RESIDENTIAL CONSTRUCTION



Source: Statistics NZ

TABLE 1**NON-RESIDENTIAL BUILDING CONSENTS BY REGION AND SECTOR**

\$M OF CONSENTS FOR THE YEAR ENDING SEPTEMBER 2016; RED COLOUR SHADING FOR DECLINE IN CONSENTS FROM PREVIOUS YEAR

REGION	SECTOR									
	HOSTELS, PRISONS ETC	ACCOMODATION	HEALTH	EDUCATION	SOCIAL, CULTURAL, RELIGIOUS	RETAIL	OFFICE	STORAGE	INDUSTRIAL	FARM
NORTHLAND	1.5	1.5	4.2	17.1	4.7	4.6	8.6	2.7	3.6	7.5
AUCKLAND	190.3	57.6	204.7	465.8	72.8	329.1	501.8	260.8	129.9	28.3
WAIKATO	1.6	12.3	34.7	44.3	35.5	60.9	33.4	33.3	60.8	59.7
BAY OF PLENTY	1.5	0.5	28.7	33.0	34.7	32.6	47.2	65.8	23.2	11.3
GISBORNE	0.0	0.0	1.0	2.4	2.9	2.3	2.0	0.8	11.5	1.7
HAWKE'S BAY	8.0	1.3	4.3	22.7	14.2	16.6	15.0	27.5	19.9	8.1
TARANAKI	0.7	3.8	7.0	12.8	10.8	7.9	17.2	4.9	35.3	29.9
MANAWATU- WANGANUI	0.2	3.2	19.3	17.6	11.8	14.2	29.0	8.9	18.7	13.6
WELLINGTON	1.6	5.7	16.4	75.2	47.8	55.4	236.2	18.5	34.8	4.5
NELSON	0.0	0.4	0.3	7.4	12.9	3.6	2.9	2.4	10.5	0.3
TASMAN	0.0	0.5	0.1	3.5	3.6	7.8	2.8	3.6	1.5	4.0
MARLBOROUGH	0.0	6.4	4.2	6.4	1.4	4.6	5.7	5.5	10.2	4.0
WEST COAST	0.0	2.1	14.2	2.2	1.4	0.4	1.9	1.9	1.1	2.7
CANTERBURY	16.8	46.5	290.1	314.0	107.2	189.2	233.1	217.9	121.1	46.0
OTAGO	3.9	43.0	16.4	178.5	8.6	42.1	34.0	20.6	25.4	12.4
SOUTHLAND	0.6	0.5	4.8	4.8	2.3	16.7	4.8	11.2	8.1	10.8

Source: Statistics NZ, NZIER



BUILDING COSTS

The Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) provides an official measure of cost movements in the sector. The CGPI-NRB excludes GST. The rate of increase in the CGPI-NRB can be used as an indicator of cost escalation.

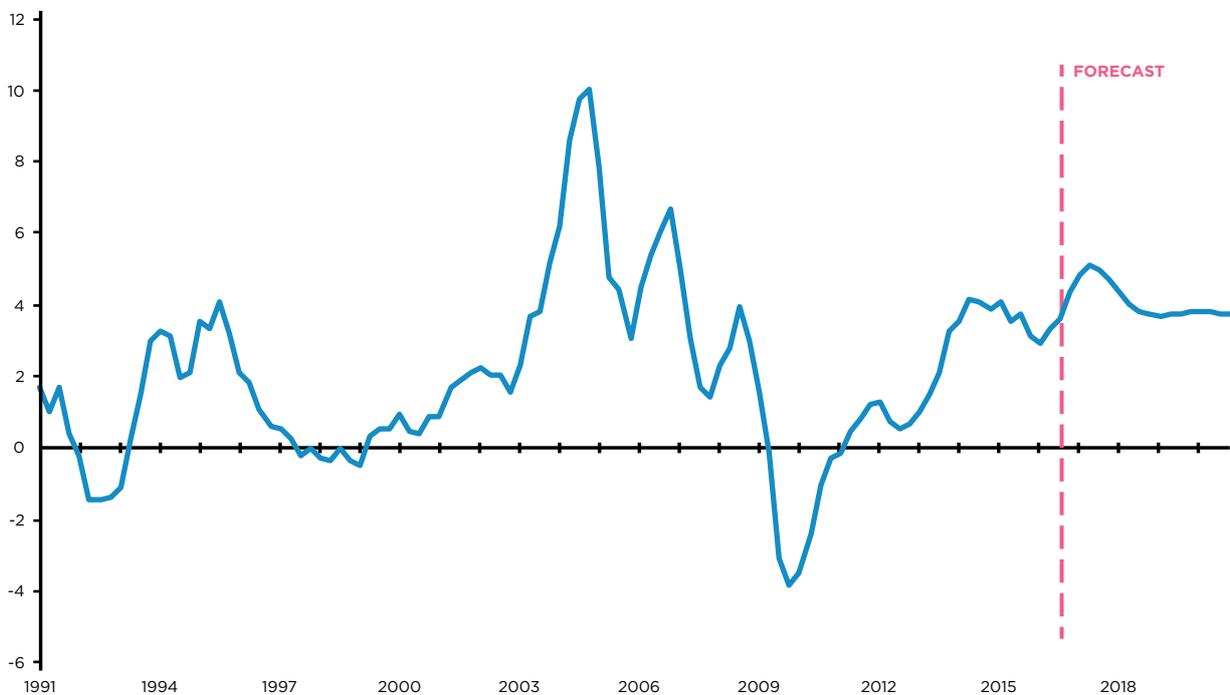
The CGPI-NRB is a national average across all regions and building types. We therefore advise caution in applying the increase in the CGPI-NRB as an indicator of cost escalation for specific building projects.

The Rider Levett Bucknall Fourth Quarter 2016 Oceania Report provides local regional comment and tender price relativity between the main New Zealand and Australian centres. This publication is available at www.rlb.com or on request from any Rider Levett Bucknall office.

Construction costs increases have picked up more recently as construction activity continues to rise, but there are differences across the regions. While resource and capacity constraints have eased in Canterbury, they are more acute in Auckland.

NZIER forecasts construction cost inflation to edge up to 5% over 2017, and to moderate to just under 4% through to 2020. This represents the highest sustained inflation in the sector since the construction boom of the mid-2000s. However, NZIER does not expect the inflation to be as sharp as the mid-2000s given 1) the low inflation environment limits the extent to which rising costs can be passed on quickly, and 2) strong net migration is helping to mitigate skills shortages in the building sector.

FIGURE 7
NON-RESIDENTIAL BUILDING COST ESCALATION
CGPI-NRB INDEX, ANNUAL % CHANGE



Source: Statistics NZ, NZIER forecasts

TABLE 2
NON-RESIDENTIAL BUILDING COST INDEX

YEAR	QUARTER	INDEX	QUARTERLY % CHANGE	ANNUAL % CHANGE
2011	MARCH	1334	0.1	-0.1
	JUNE	1342	0.6	0.4
	SEPT	1347	0.4	0.8
	DEC	1349	0.1	1.2
2012	MARCH	1351	0.1	1.3
	JUNE	1352	0.1	0.7
	SEPT	1354	0.1	0.5
	DEC	1358	0.3	0.7
2013	MARCH	1365	0.5	1.0
	JUNE	1372	0.5	1.5
	SEPT	1383	0.8	2.1
	DEC	1402	1.4	3.2
2014	MARCH	1413	0.8	3.5
	JUNE	1429	1.1	4.2
	SEPT	1440	0.8	4.1
	DEC	1456	1.1	3.9
2015	MARCH	1471	1.0	4.1
	JUNE	1480	0.6	3.6
	SEPT	1494	0.9	3.8
	DEC	1502	0.5	3.2
2016	MARCH	1514	0.8	2.9
	JUNE	1529	1.0	3.3
	SEPT	1548	1.2	3.6
2017	DEC	1568	1.3	4.4
	MARCH	1588	1.3	4.9
	JUNE	1607	1.2	5.1
	SEPT	1625	1.1	5.0
2018	DEC	1641	1.0	4.7
	MARCH	1657	1.0	4.4
	JUNE	1672	0.9	4.1
	SEPT	1687	0.9	3.8
2019	DEC	1702	0.9	3.7
	MARCH	1718	0.9	3.7
	JUNE	1734	0.9	3.7
	SEPT	1751	0.9	3.8
2020	DEC	1767	0.9	3.8
	MARCH	1784	0.9	3.8
	JUNE	1800	0.9	3.8
	SEPT	1817	0.9	3.8
	DEC	1833	0.9	3.8

Notes: The current and forecast CGPI-NRB is a national average, which does not differentiate between regions or building types. We therefore advise caution in applying the increase in the CGPI-NRB as a measure of cost escalation for specific building projects.

Source: Statistics NZ, NZIER forecasts

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