

Construction in NZ – a snapshot....

Challenges and opportunities, issues and trends

National Carpentry Conference

December 2013



Outline – a “*State of the Nation*”

Where is Construction at?? Where is it going??

- **Economic context**
- **Industry context**
- **The opportunity**
- **Issues & Challenges**
- **Questions**



A unique “moment in time”

- “Perfect storm”
 - Economic recovery
 - Christchurch residential
 - Christchurch commercial rebuild
 - National residential
 - Auckland commercial
 - Industry realignment
- Unique challenges and opportunities for our industry
- Transformational change is *demanded*.....
..... and *enabled*



..... NZ Style - Economic Conditions

- Post GFC Recovery is happening
- Policy fundamentals are sound
- Demographics – migration flows
- Our commodities and Asia
- Christchurch stimulus
 - \$40bn injection!!
- Transition from over-supply to under-supply is happening right now!



Industry Conditions

- 5 years of stagnation – 20-30% under capacity
- Major realignment – Mainzeal, etc
- Highly visible impact of dysfunctions:
 - leaky buildings
 - business failures
 - high costs / low productivity
 - procurement gridlock
- Earthquake prone buildings

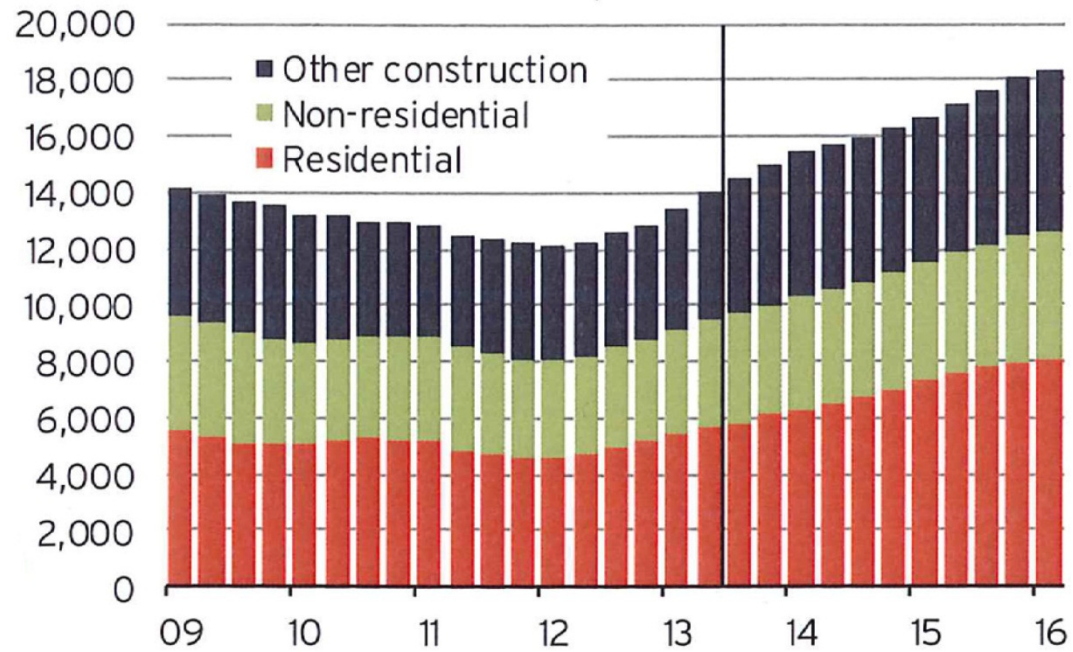
And of course Christchurch!!



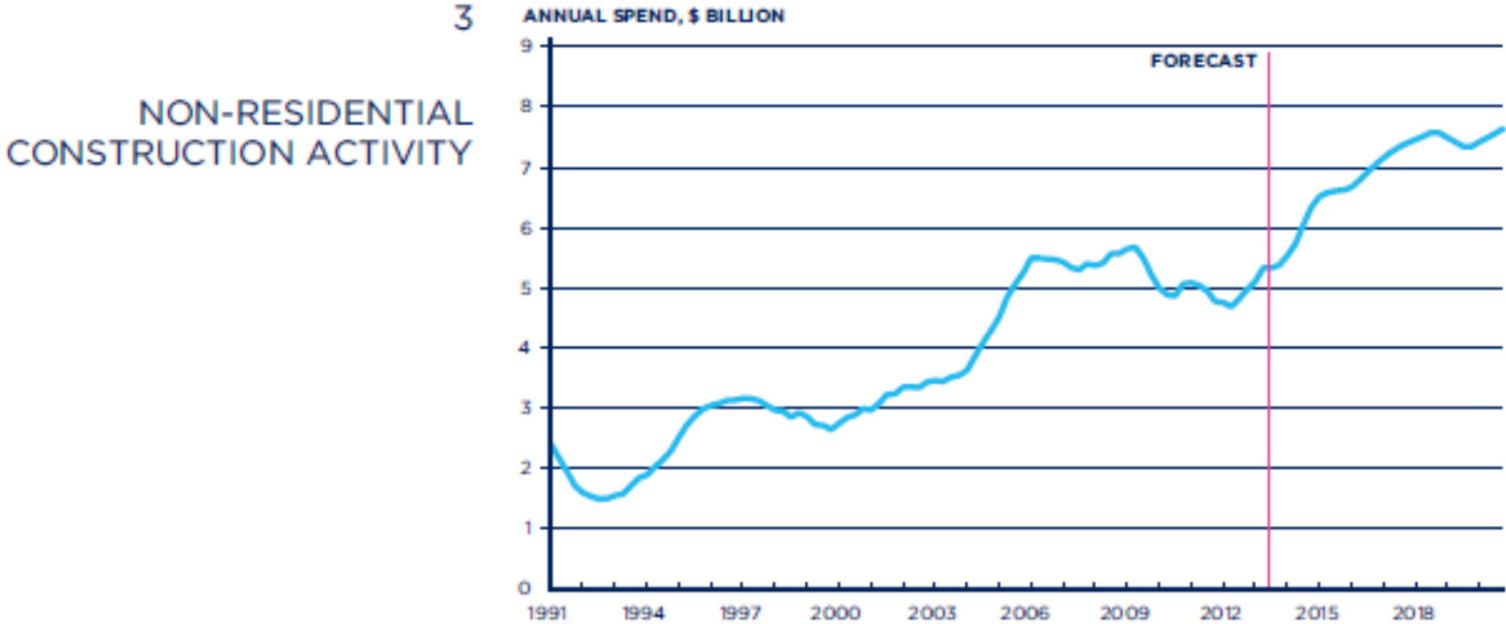
Market Snapshot

Entering the boom

Year-end construction GFCF, 1995/96 \$m



Market Outlook

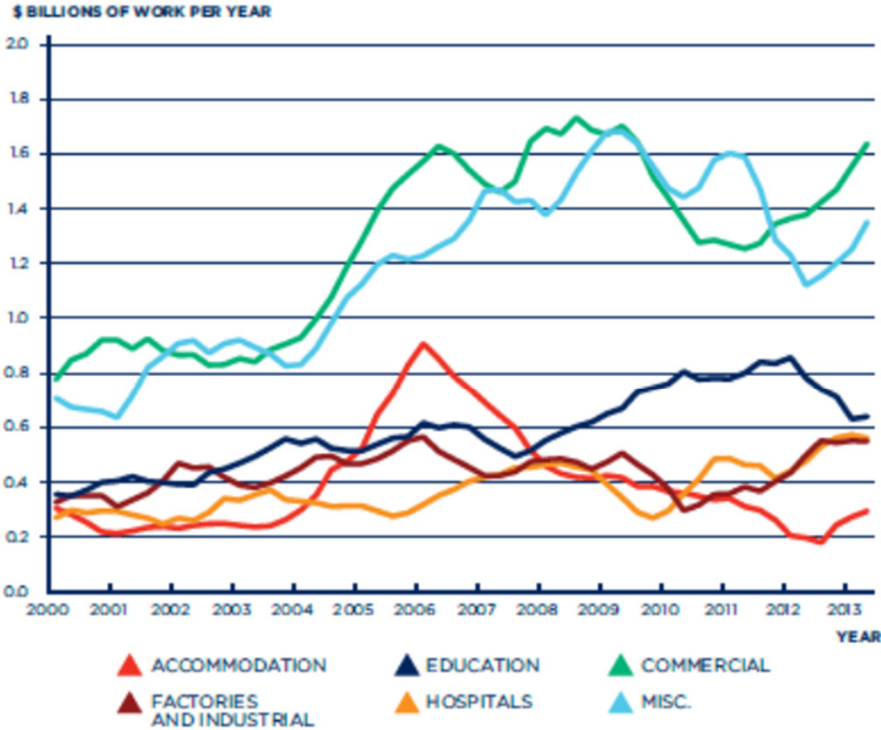


Source: Statistics NZ, NZIER forecasts



Market Outlook

NON-RESIDENTIAL BUILDING CONSTRUCTION BY SECTOR

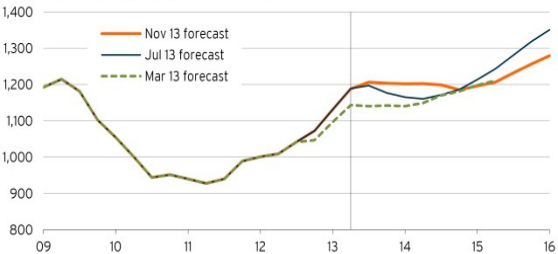


Source: Statistics New Zealand

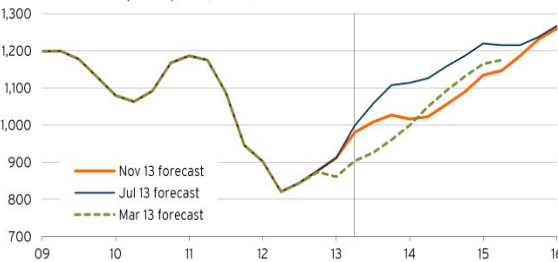


Market Outlook

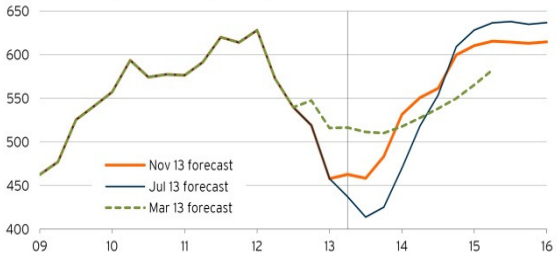
Commercial building forecast
Year-ended work put in place, 1995/96 \$m



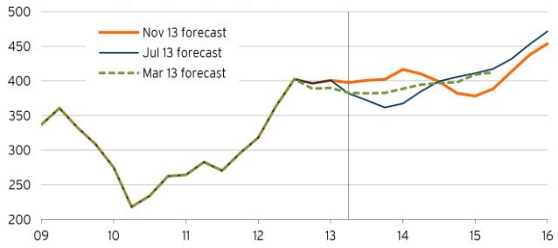
Miscellaneous building forecast
Year-ended work put in place, 1995/96 \$m



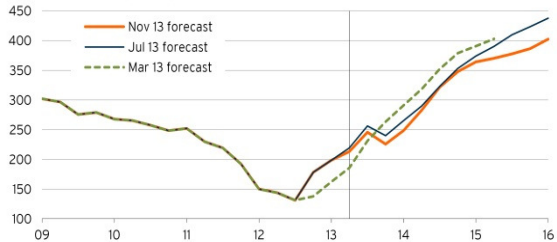
Education building forecast
Year-ended work put in place, 1995/96 \$m



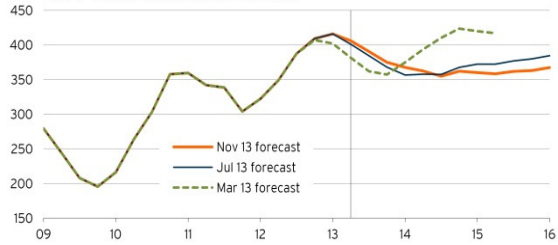
Industrial building forecast
Year-ended work put in place, 1995/96 \$m



Accommodation building forecast
Year-ended work put in place, 1995/96 \$m



Hospital building forecast
Year-ended work put in place, 1995/96 \$m



Construction – what is it ...

- 6% GDP
- 8.5% Employment
- Raw materials → → Asset management!
 - huge economic multiplier
- Building stock \$388bn – 7x stock market
- 3 sectors with very different drivers
 - Residential
 - Non Residential
 - Infrastructure



Construction – industry characteristics

- Lags the Economy
- Peaks and troughs amplified
- Low entry barriers
- Poor regulatory framework
- Drivers – short term, not strategic
- Fragmented
- Dog eat dog



A bit of Context.....

1950



A bit of Context.....

1890



A bit of Context.....



A bit of Context.....

1970



2013



The brutal truth.....



The construction industry has come a long way.....

Yeah right.



Why are we like this?

Many reasons

- low entry barriers
- cyclical patterns
- industry economic model
- etc
- etc

*Procurement methods are a big contributor
..... especially in a buoyant market*



Procurement - Traditional Model

- Set up as a contest – win-lose or lose-lose
- Unbalanced contracts – design, build, litigate?
- Entry cost vs out-turn cost?
- Risk avoidance
- Talk relationships, procure on price
- Cost, not value
- Plausible deniability – trusting process to make decisions



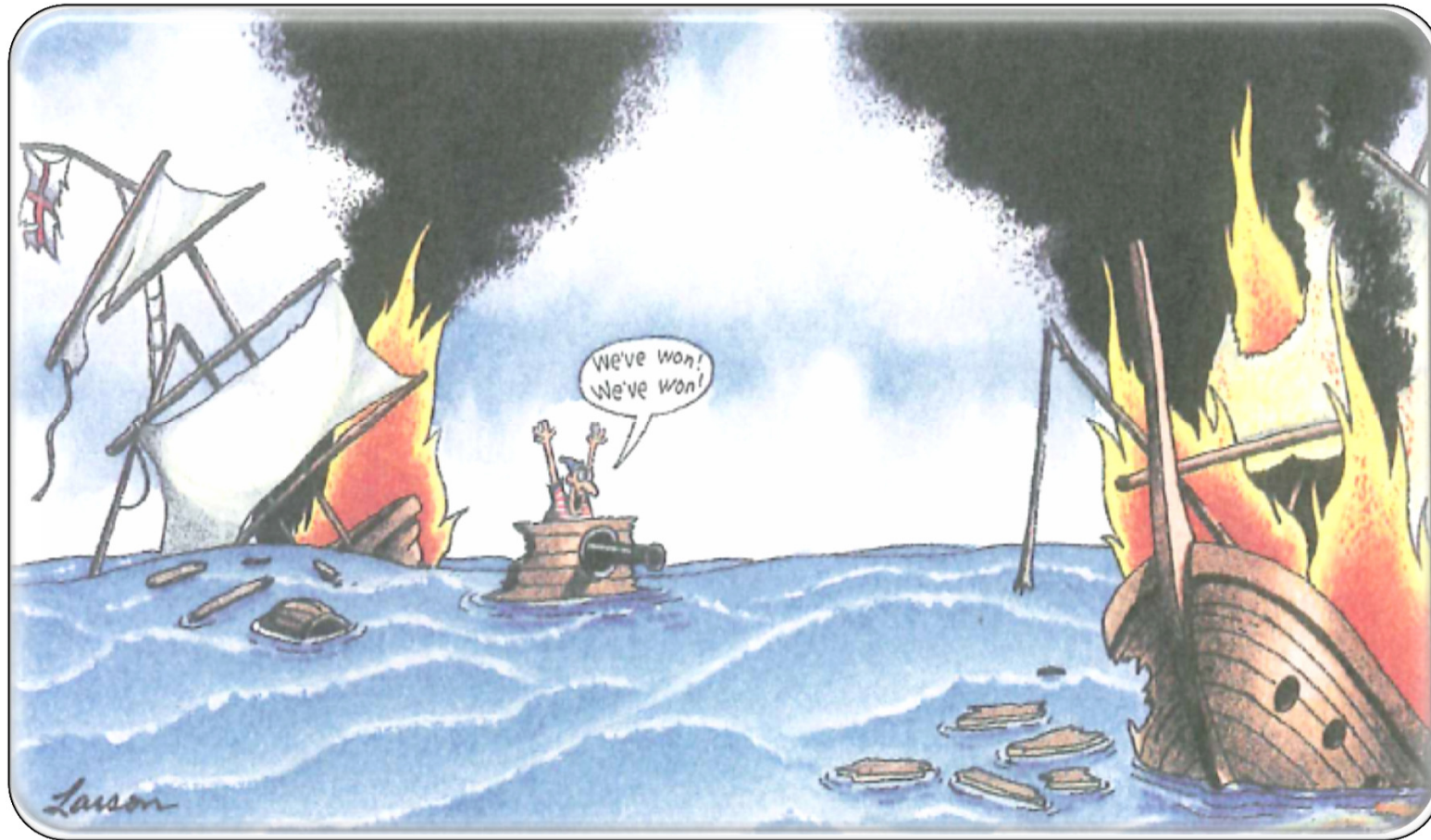
Procurement - Traditional Model



New battle instructions won't make trench warfare
successful (or enjoyable!)



Frequent Outcome



2014 → →

- A new world - NZ Inc cannot afford us to keep repeating history
- Circumstances DEMAND fundamental change
- Circumstances also provide a “once in a generation” opportunity to change
- Risk of recessionary behaviours being carried into a ‘tipped’ market
- Downside risk “zero sum” game at best!!



Christchurch

- Unique circumstances amplify the underlying dysfunctions and risks!!
- The cost of getting it wrong will be much greater
- Volatility – we must be agile!
- Political deadlock → Market Uncertainty
- Resources are an *industry/economy wide* issue
- The rebuild provides a unique enabler for change
 - How do we “grab” the opportunity??



Our key economic risk – UNCERTAINTY!

“*Political Deadlock*”

Central government

- CERA
- MBIE / Treasury / NIU
- Ministries – Justice, Transport, Police, Education,

VS

Local Government

- Christchurch City
- Auckland City
- Wellington City

.....



- Simple political will can fix it
- Cost of not doing it is huge!



The Resources Debate

- It's NOT a capacity issue it's a logistics issue
- Get the context right.....

Regional → National → Australasia → Asia Pacific

- Sector / trade specific not “across the board”
- Main Contractor vs Supply Chain
- The solution is simple - investment and planning!!

The missing linkCERTAINTY

- China, Mexico, etc.....

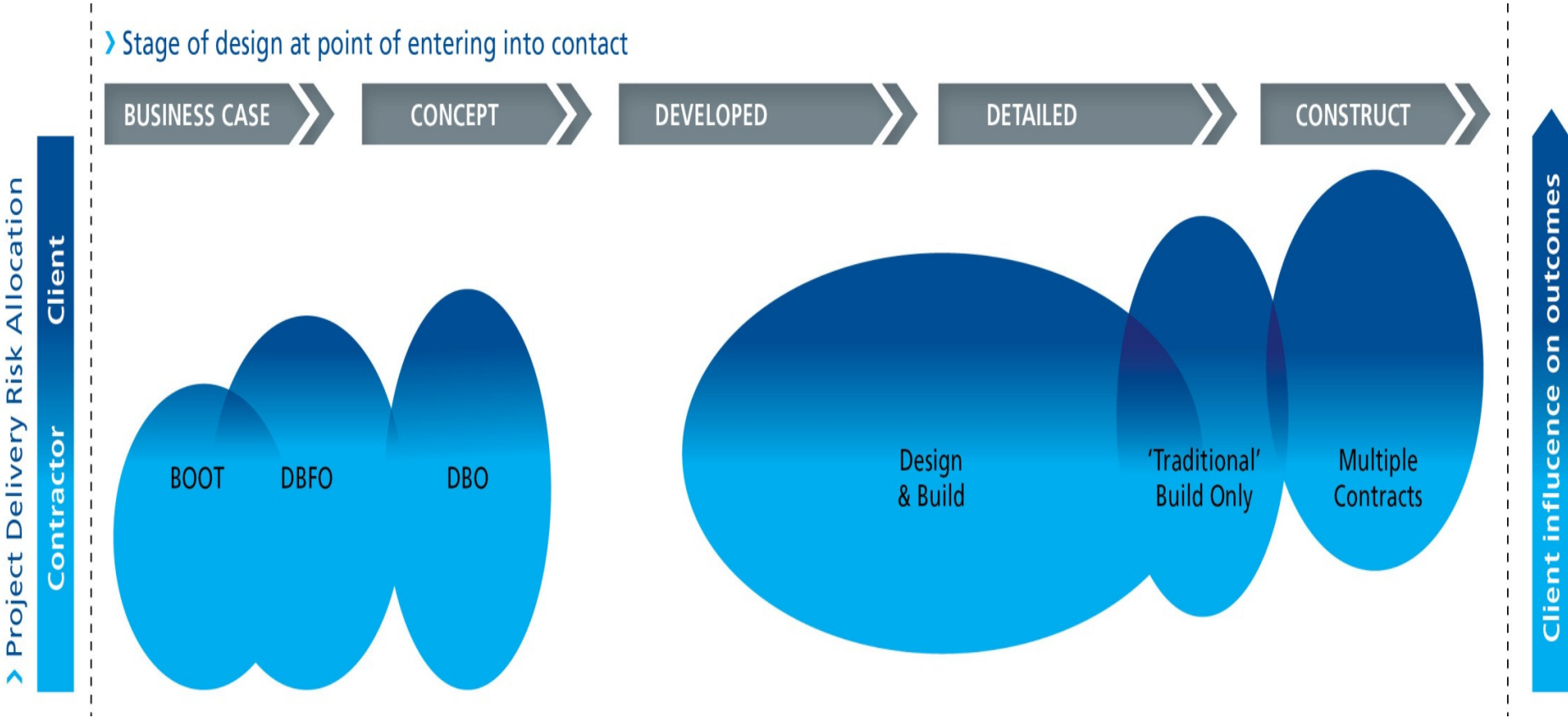


Procurement - What can we do differently?

- The project must really be King
- Focus on procuring capability, not price
 - the right skills and culture
 - Early involvement
- Align procurement to *project* needs
 - Organisational constraints - risk appetite
 - Scale
 - Complexity
 - Project phasing
 - Context/environment
 - Capacity



One size does not fit all



Procurement - What can we do differently?

- Quality of race is not the number of participants
- Structure evaluation process and criteria carefully
- Manage risk - with party best able to manage it
- Value relationships properly
- The real costs of waste or failure
- Trust → → disciplined collaboration
 - aligned objectives
 - clear roles/responsibilities



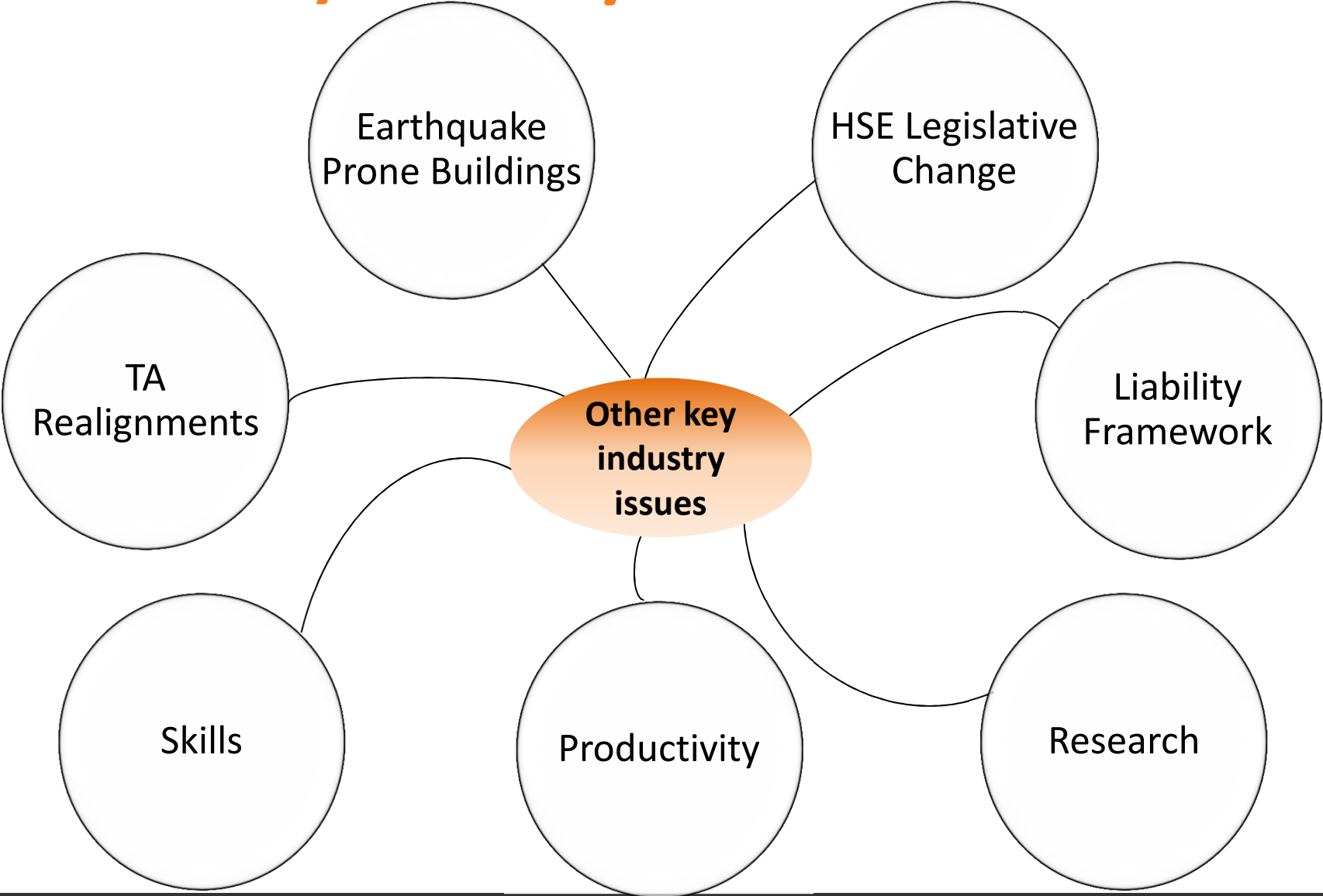
Bonding / Security

- The “Mainzeal effect”
- Supply / Demand – the Surety market is limited!!
- There are 2 sides to the coin!
- Two distinct sectors –
 - Government
 - Non- Government / Commercial

A transformational issue for the industry



Other key industry issues



Some key challenges

“ Government ”

- Christchurch Project Flow - Certainty!!
- Continue regulatory reform – good progress made
- Liability framework
- National savings ↔ property / infrastructure investment
- Reduce Ministerial fragmentation – MBIE a good start
- Why is our Minister outside Cabinet and ranked 21?
- Immigration policies
- R & D incentives



Some key challenges

“ Users ”

- Procurement – realise the value
 - early involvement
 - align incentives
- Resource constraints – focus on value, not cost
- Disciplined TRUST!!
- Risk management – dynamic commercial arrangements
- Relationship based dealings – the longest term assets in society deserve better than commodity treatment!!



Some key challenges

“ *Industry* ”

- Cohesion – fragmentation is still a major issue
- Dog eat dog attitudes prevail. We need to grow up!
- Drive regulation reforms and embrace the outcomes
- Service provider- need to act like one
- Skills – training and development pathways
- Find ways to not let ourselves be commoditised



Conclusion

- Future historians – “2013 was the transformation year”
- Fundamental change is essential
 - A huge challenge and a great opportunity!
 - Every part of the industry must participate
- Effective resource use is critical → Procurement
 - Capability, not cost
 - Outcome focused
 - Risk management, not risk avoidance
- Attitudes and behaviours are important –
 - Trust
 - Disciplined collaboration
 - “Why not?”
- Simplicity – reducing complexity a KEY driver



Our challenge

- Can we really change?
- How do we maximise Christchurch?
 - outcomes
 - enabler of change
- How do we embed those learnings in the industry at large?



A photograph of a construction site at sunset. The sky is a warm orange and yellow. In the foreground, several construction workers are silhouetted against the bright light, working on a structure. A large crane is visible in the background, its arm extending across the sky. The overall scene is one of industriousness and teamwork.

We can do it.....

- We are a very resourceful country

- We are a very resourceful industry

- We have very resourceful people

.....if we do it together

2013