



**STRATEGIC RISK ANALYSIS LIMITED**  
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Presentation to  
**The NZ Construction Clients' Group**

**Prospects for non-residential & residential building**

23 July 2008

Rodney Dickens

Managing Director & Chief Research Officer  
Strategic Risk Analysis Limited

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## Contents

Non-residential building activity, especially the segments impacted by the domestic economy, face a tough challenge over the next 6-12 months.

The near-term outlook for residential building is negative, but there is a candle flickering at the end of the tunnel that may also have some relevance to non-residential building.

The challenge of interest rates and oversupply facing the apartment market.

Housing affordability, the economics of buying versus renting, land prices and some implications for residential building

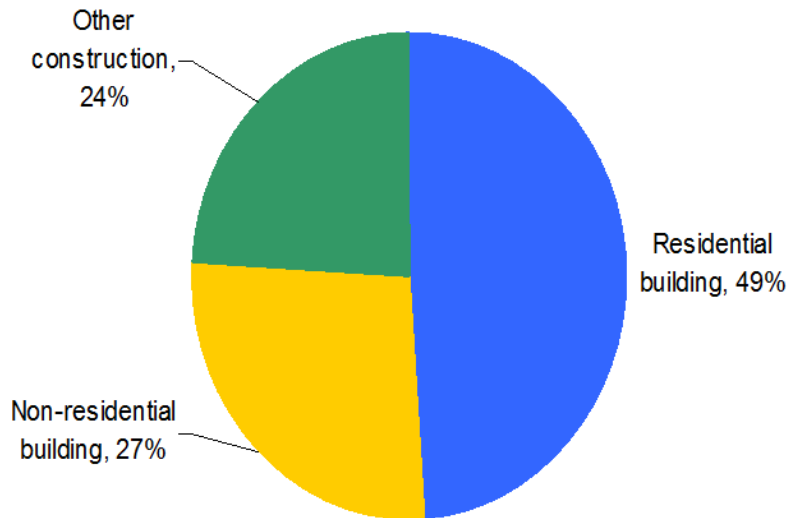
Some major NZ and international economic themes.



## Putting non-residential building, residential building and other construction in perspective

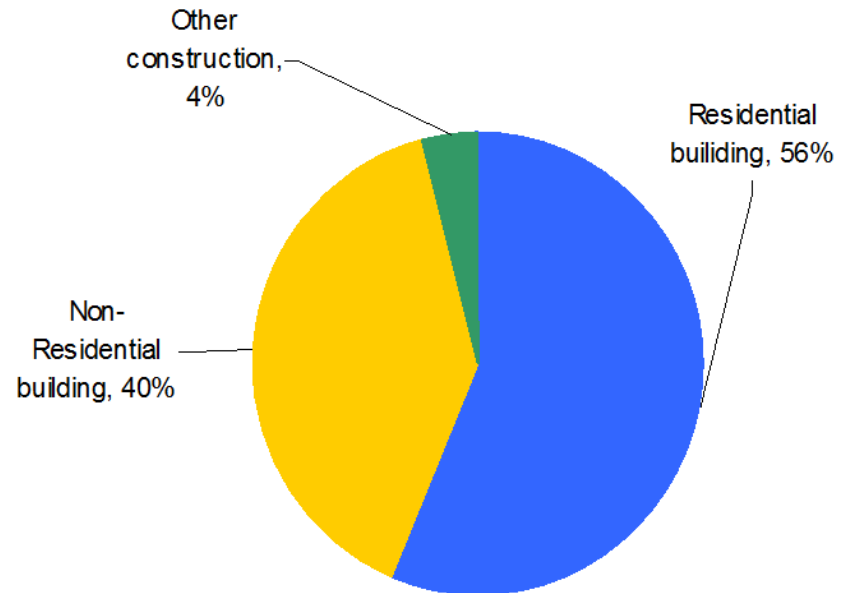
**Breakdown of NZ GDP Building & Construction**

Year to March 2008



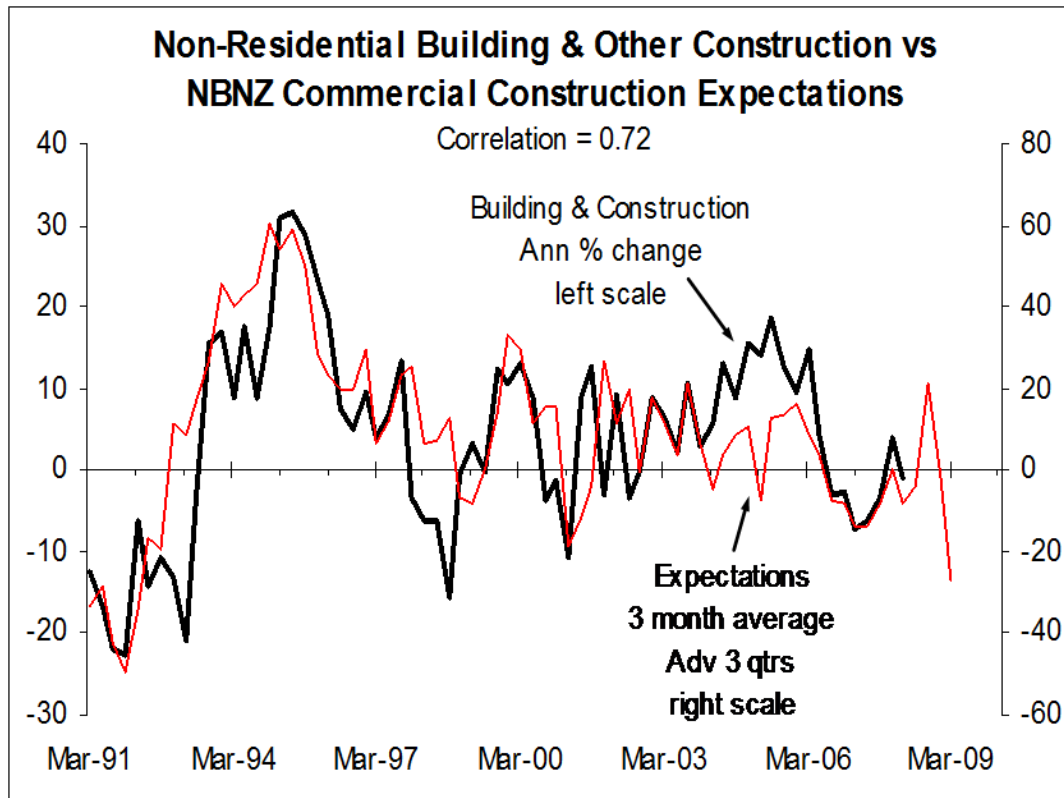
**Breakdown of Value of Auckland Building Consents**

Year to May 2008



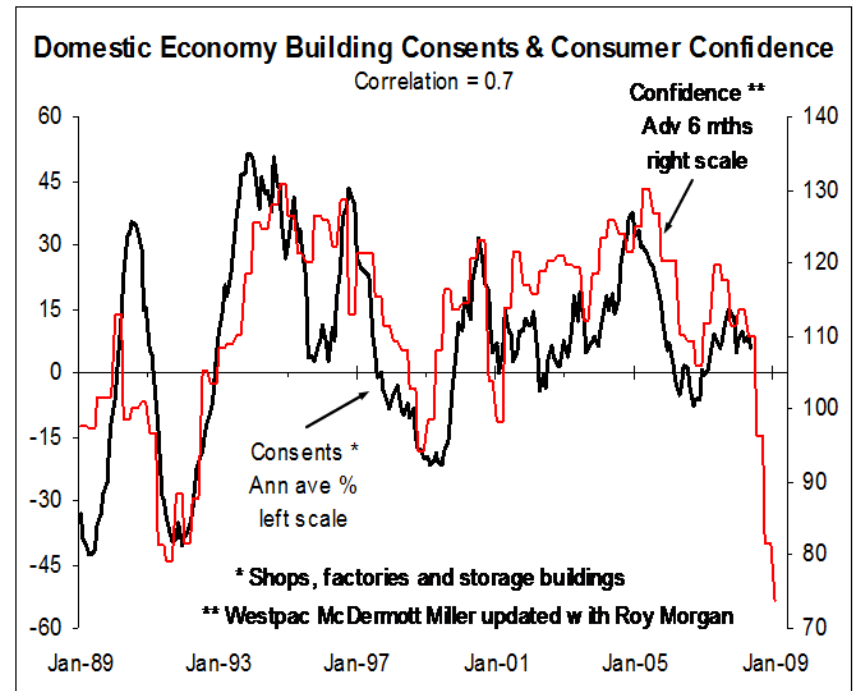
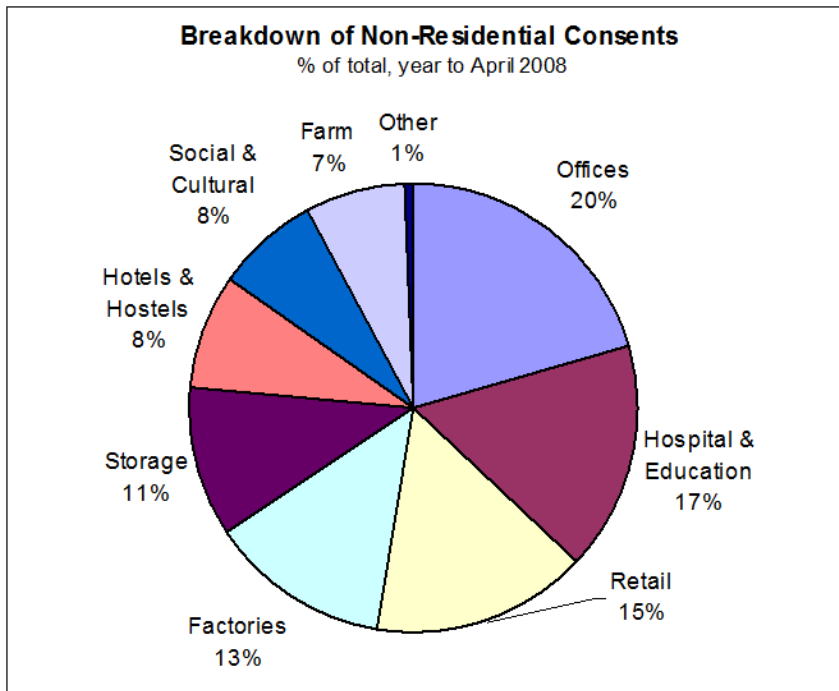


The economic downturn is probably about to bite non-residential building & other construction



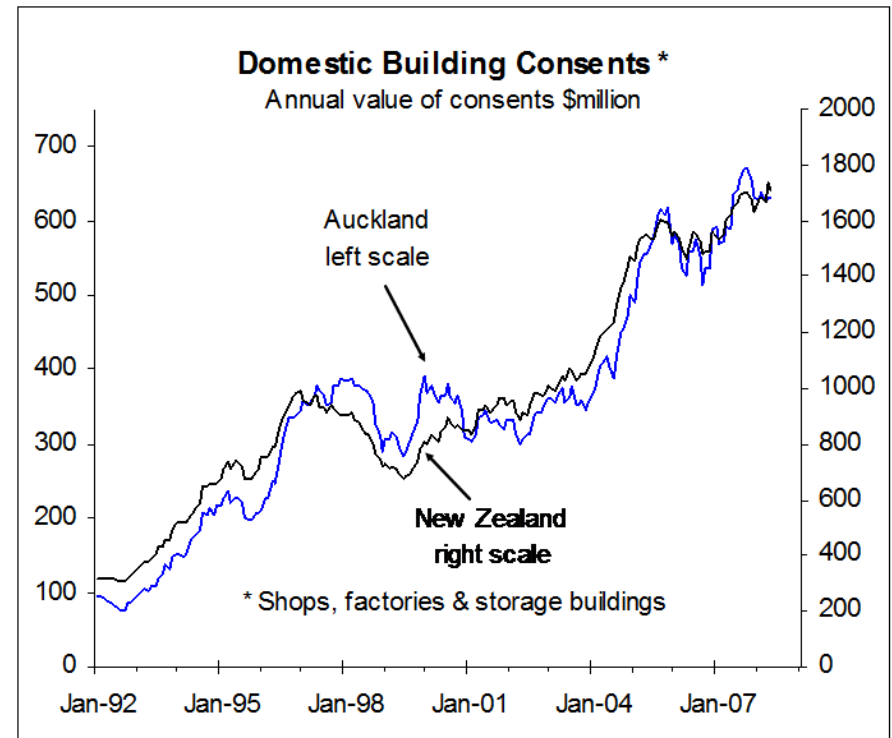
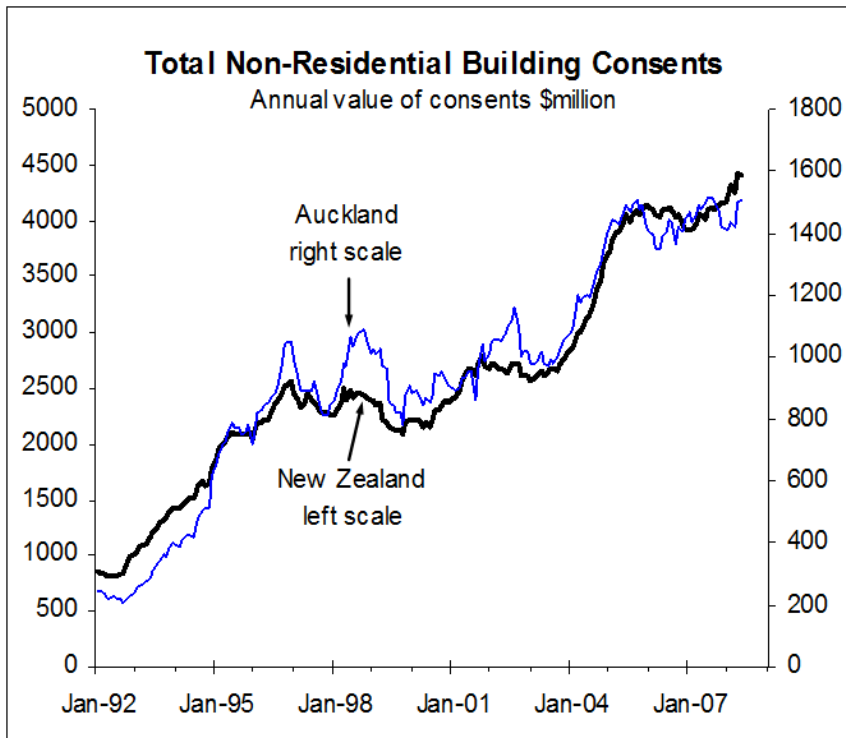


## The domestic economy drives 40% of non-residential building, and the outlook is not pretty



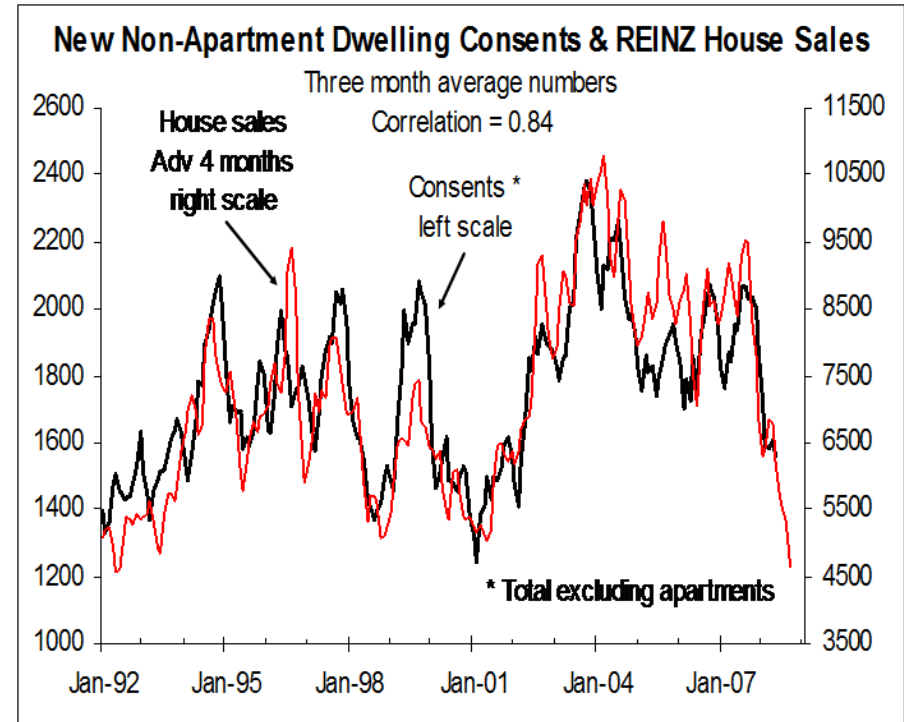
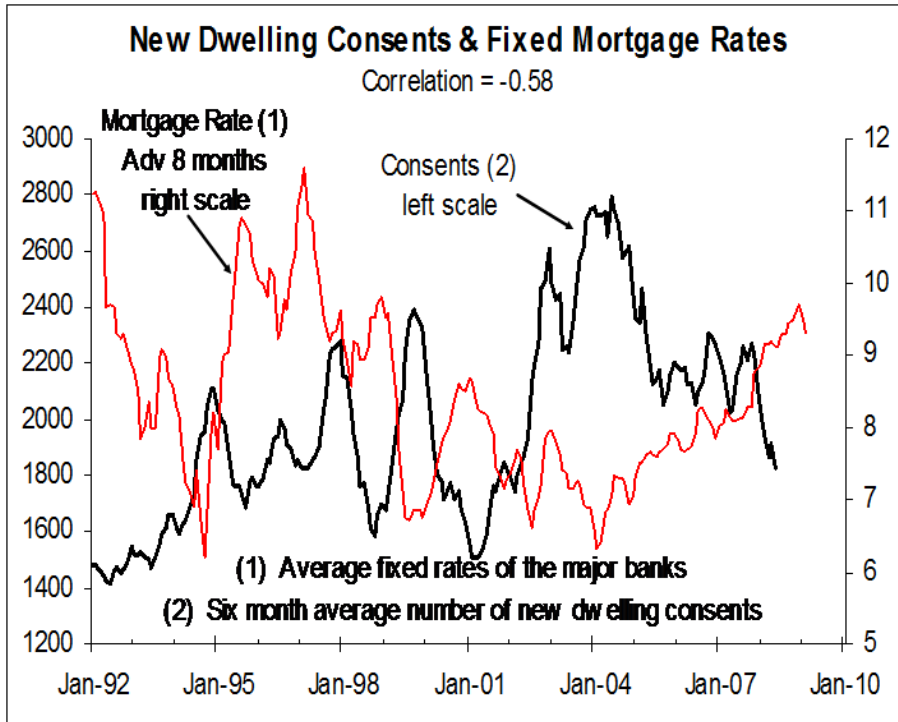


Auckland non-residential building consents roughly match the national cycle but one-off projects can have an impact





# Higher interest rates still to bite residential before some relief in H1 2009





## Heading for a large fall in residential consents in the year ahead

### **Annual Consents for New Dwellings**

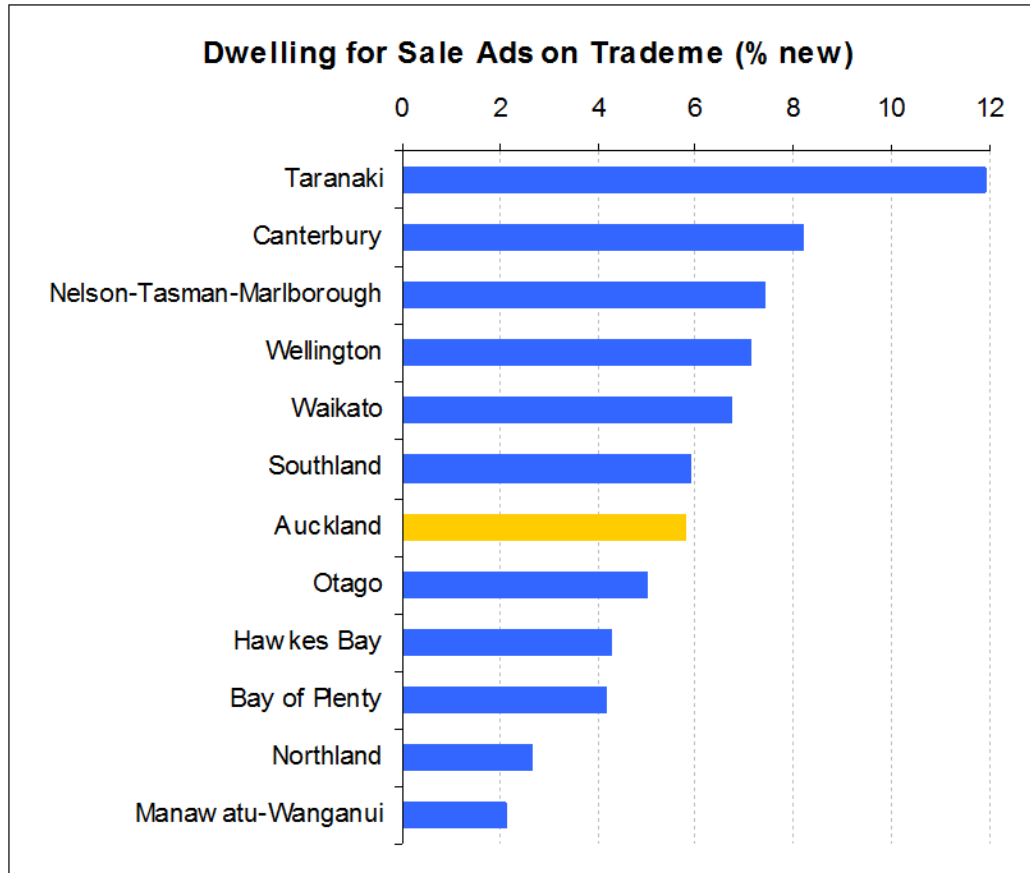
	Number	Ann % change
Mar-04	31,823	12.4
Jun-04	33,251	14.4
Sep-04	31,864	5.7
Dec-04	31,423	5.0
Mar-05	30,255	-4.9
Jun-05	27,444	-17.5
Sep-05	27,092	-15.0
Dec-05	26,023	-17.2
Mar-06	25,406	-16.0
Jun-06	25,563	-6.9
Sep-06	26,101	-3.7
Dec-06	25,952	-0.3
Mar-07	25,740	1.3
Jun-07	26,538	3.8
Sep-07	26,024	-0.3
Dec-07	25,544	-1.6
Mar-08	24,487	-4.9
Jun-08 F	23,637	-10.9
Sep-08 F	21,984	-15.5
Dec-08 F	20,481	-19.8
Mar-09 F	19,703	-19.5
Jun-09 F	19,412	-17.9
Sep-09 F	19,412	-11.7
Dec-09 F	19,862	-3.0
Mar-10 F	20,303	3.0
Jun-10 F	20,857	7.4

**Source: Statistics New Zealand ([www.snz.govt.nz](http://www.snz.govt.nz))**  
**F Strategic Risk Analysis Limited forecasts**



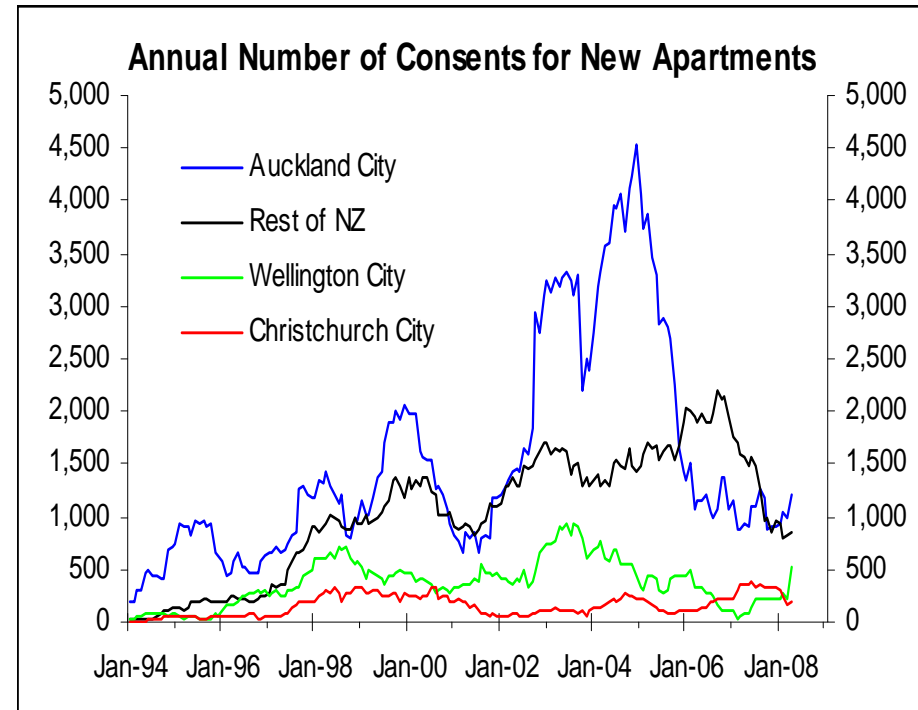
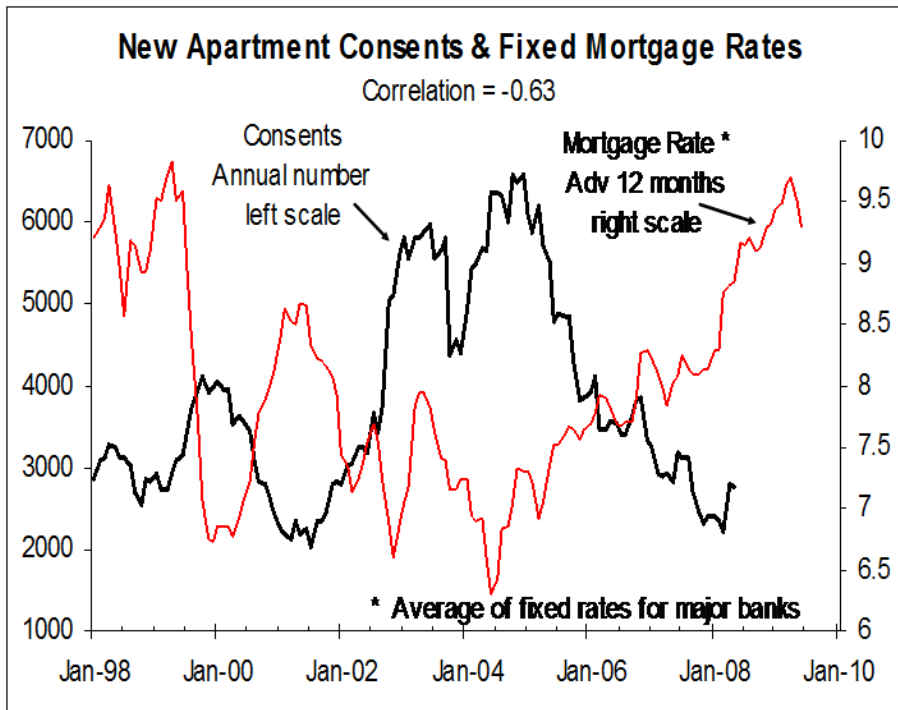


## Excessive spec building is one of the negative factors for near-term residential building prospects





## Apartment consents still face a major challenge ahead





## Apartments Advertised For Rent & For Sales - 2 July 2008

	Advertised For Rent (1)			Advertised For Sale (2)	
	Number	% of Total	% Now (3)	Number	% of Total
Auckland City	1040	55.3	72	1634	41.8
North Shore City	175	9.3	67	157	4.0
Wellington City	169	9.0	57	308	7.9
Christchurch City	114	6.1	57	219	5.6
Hamilton City	40	2.1	n/a	58	1.5
Dunedin City	56	3.0	n/a	23	0.6
Tauranga District	30	1.6	n/a	260	6.7
Napier City	18	1.0	n/a	49	1.3
Nelson City	5	0.3	n/a	28	0.7
Queenstown-Lakes District	6	0.3	n/a	333	8.5
Thames-Coromandel District	9	0.5	n/a	143	3.7
The Rest of New Zealand	219	11.6	n/a	693	17.7
<b>New Zealand</b>	<b>1881</b>	<b>100.0</b>		<b>3905</b>	<b>100.0</b>

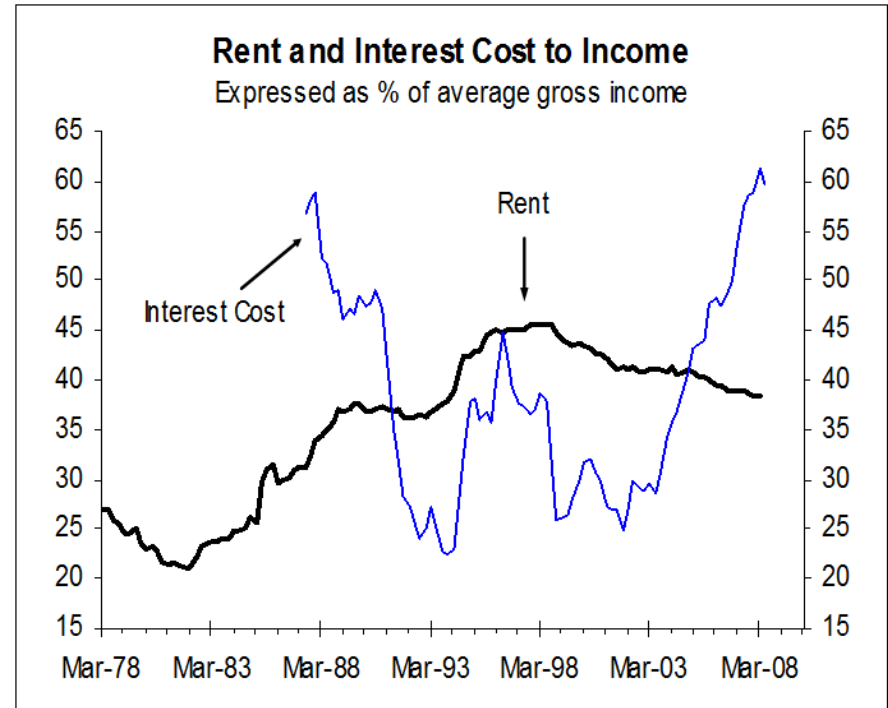
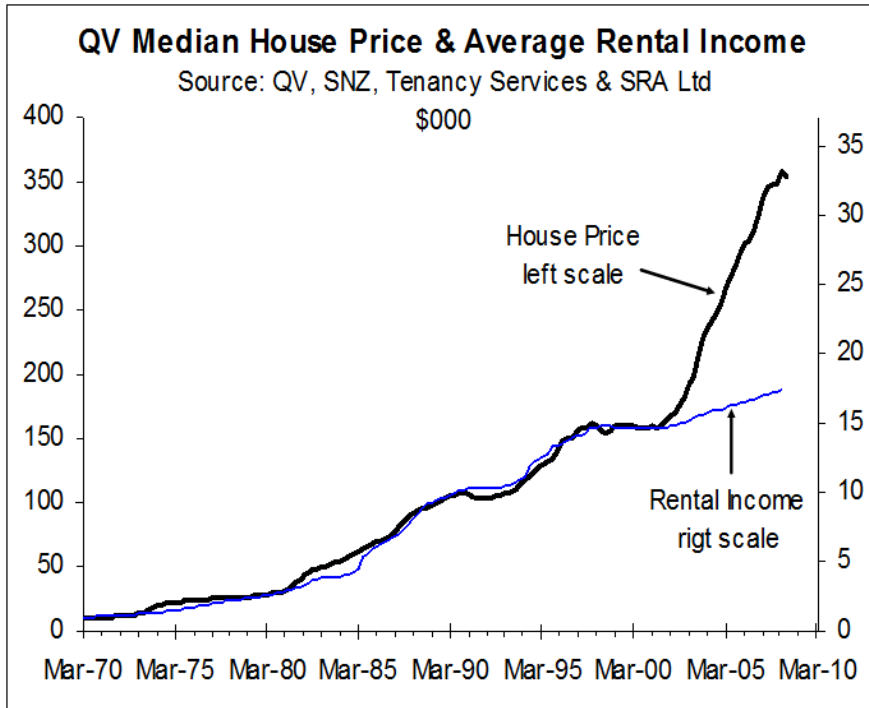
(1) source [www.trademe.co.nz](http://www.trademe.co.nz)

(2) source [www.realestate.co.nz](http://www.realestate.co.nz)

(3) % available for occupation immediately based on samples of ads

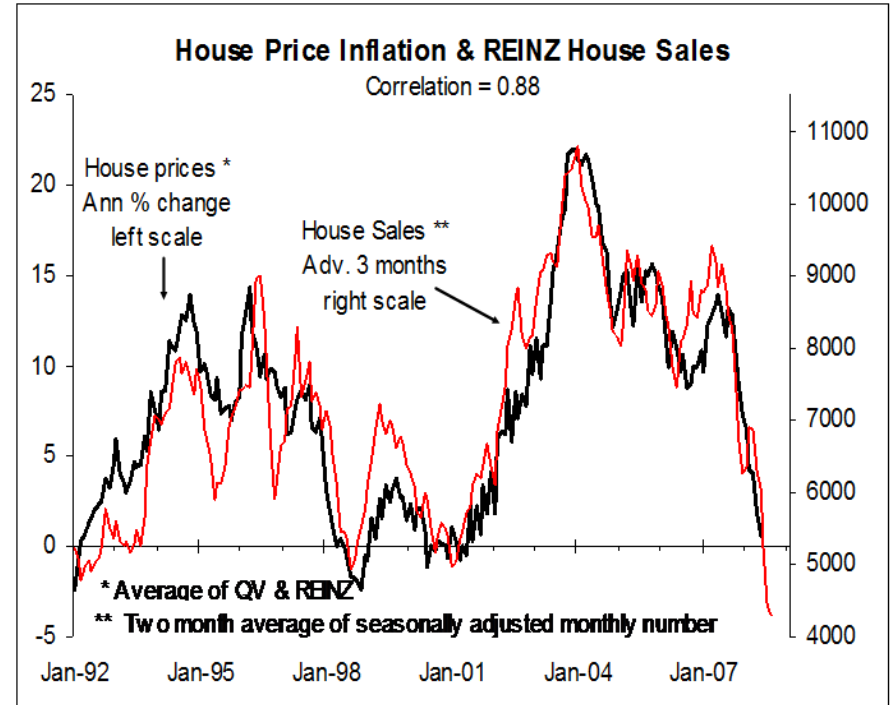
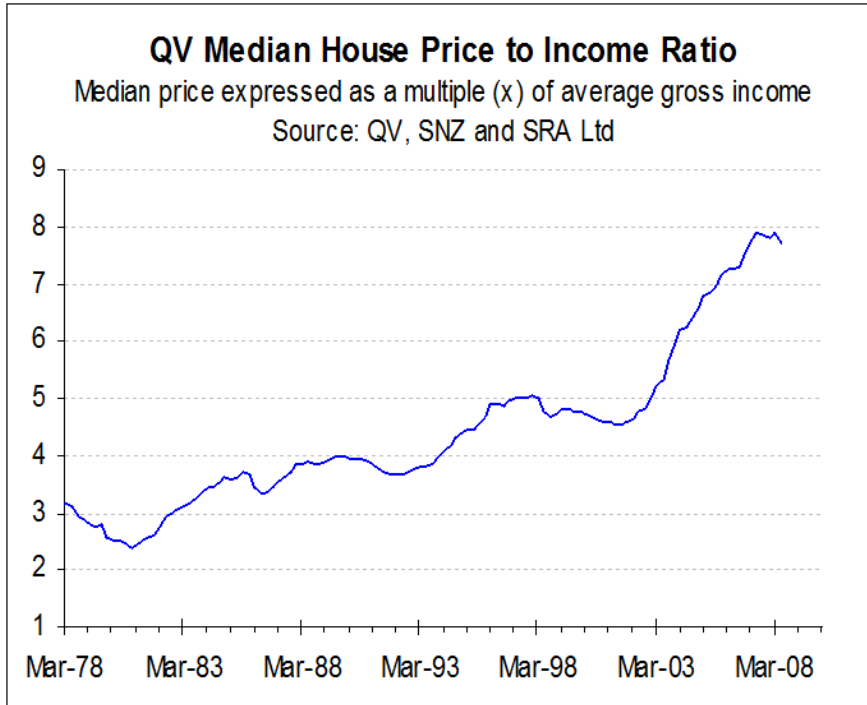


## The challenge of housing affordability and the rental market



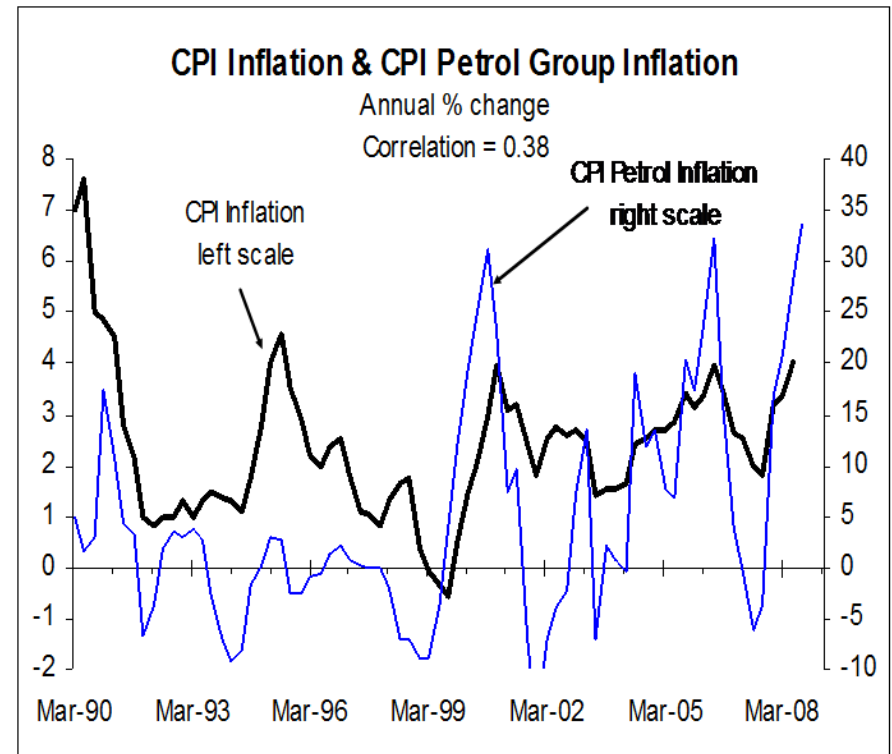
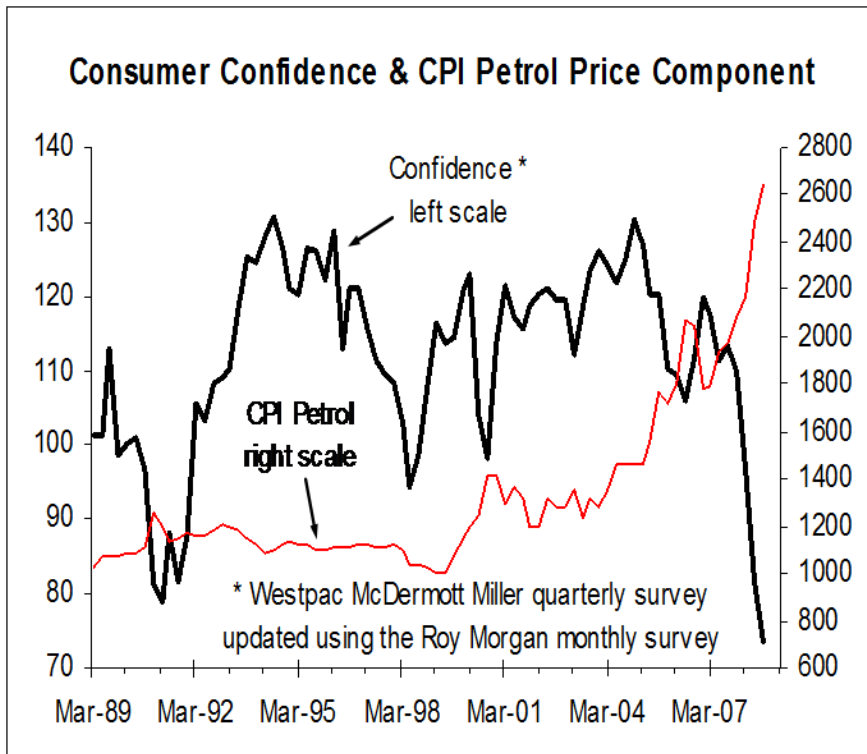


Falling house prices will improve existing house affordability but make H & L packages less attractive. Sourcing cheaper section prices will be critical.



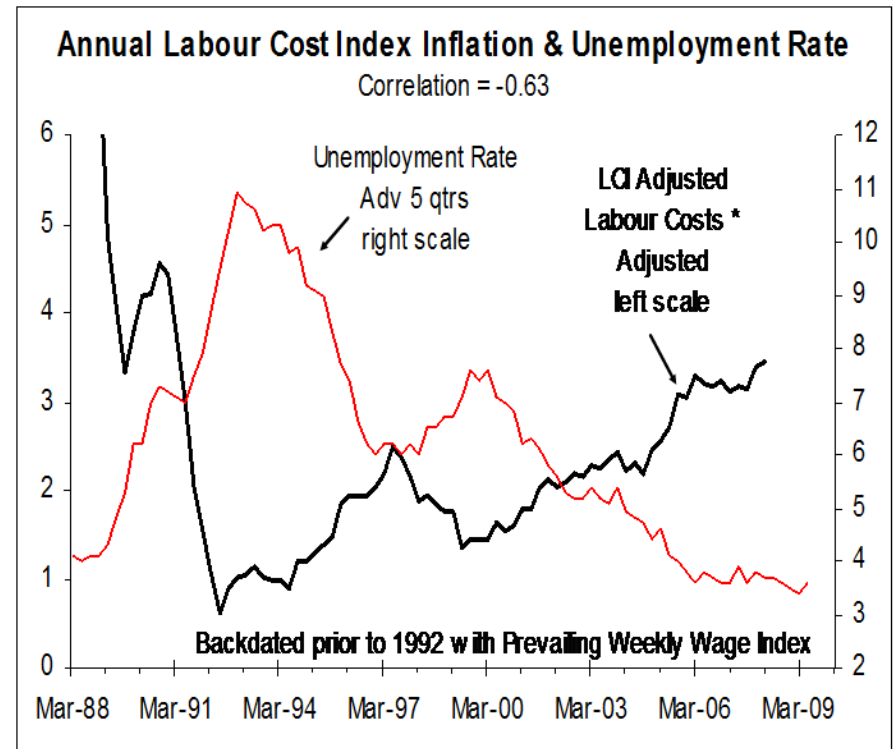
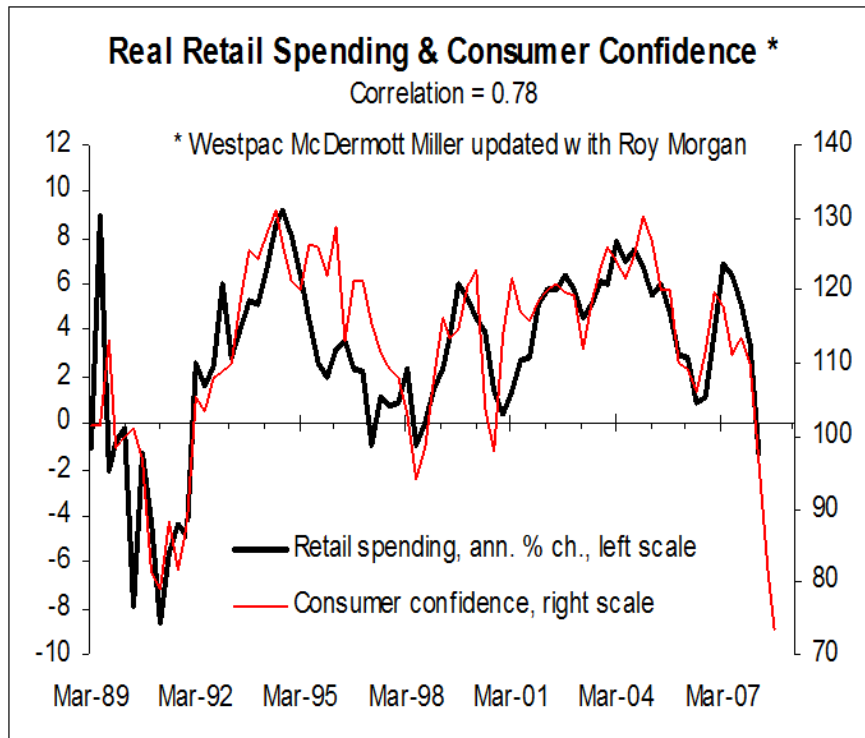


# Petrol is a two-edge sword that doesn't make the RBNZ's job easier



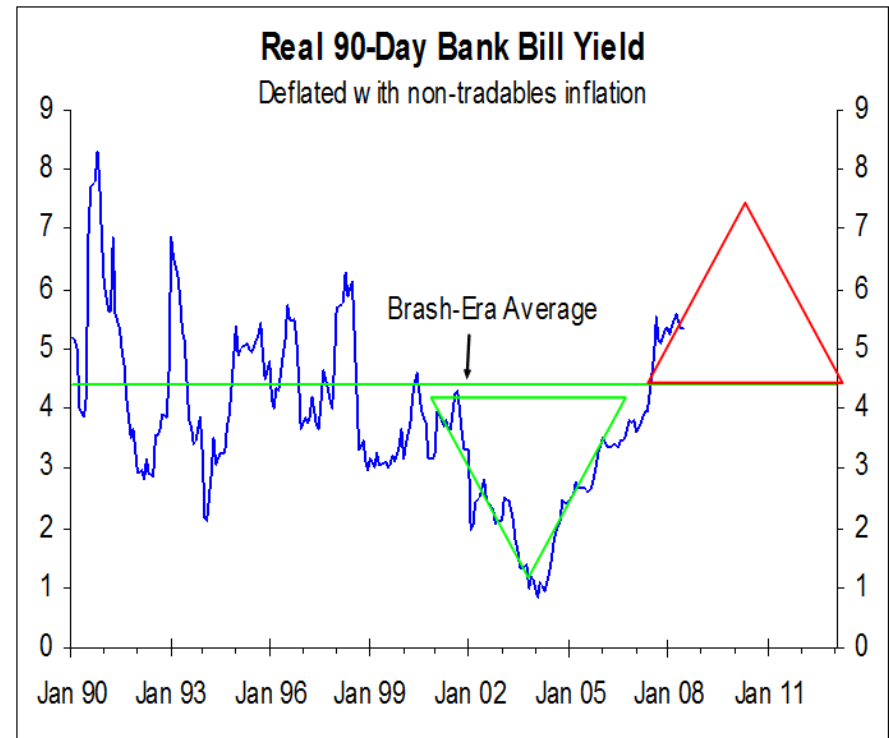
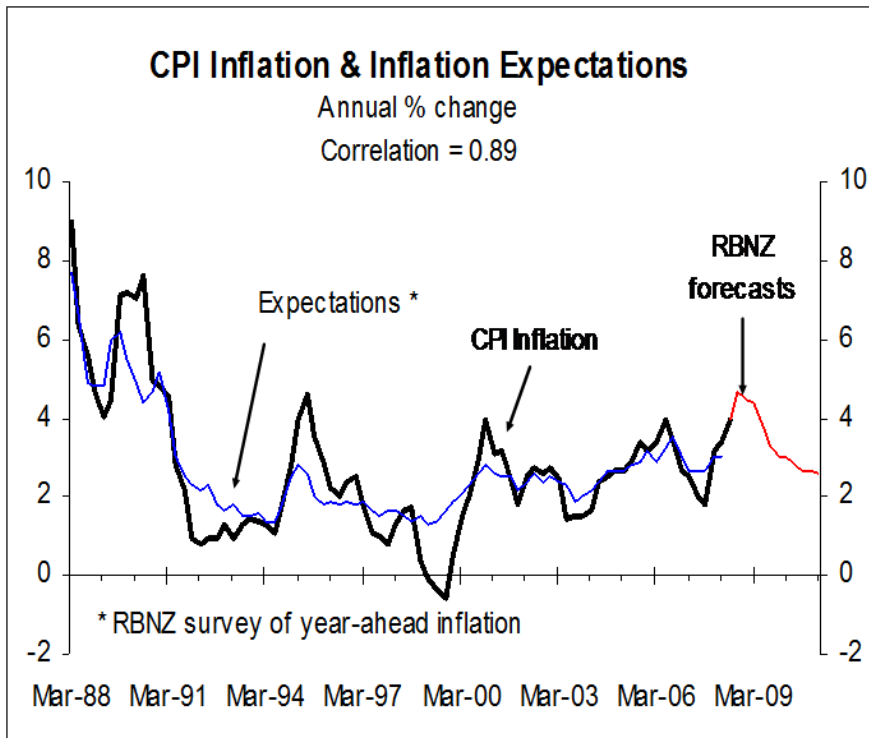


The recession will bring OCR cuts but it was needed to sort out the labour market which is central to the domestic inflation problem





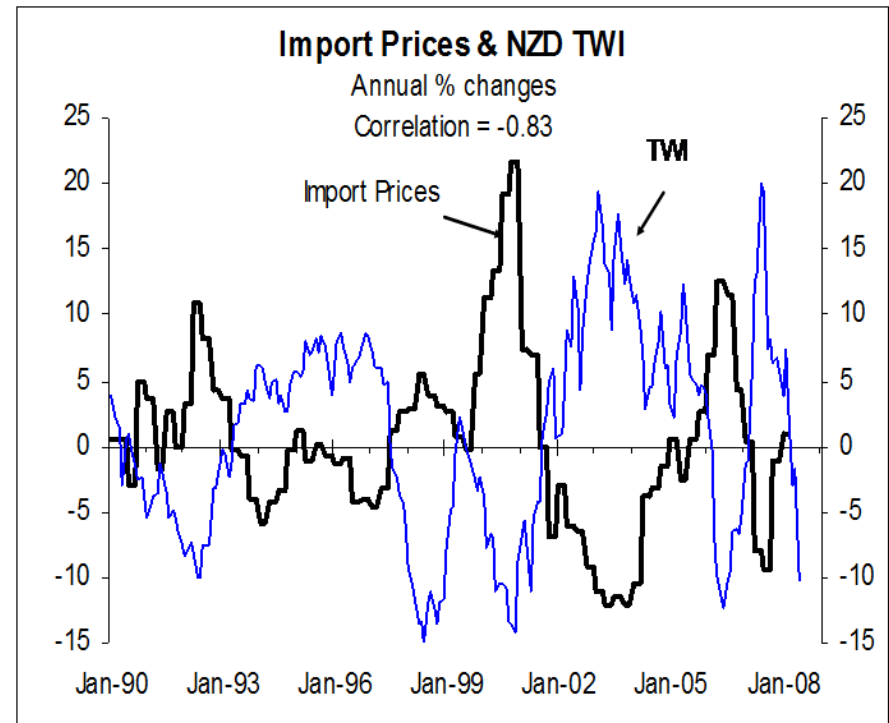
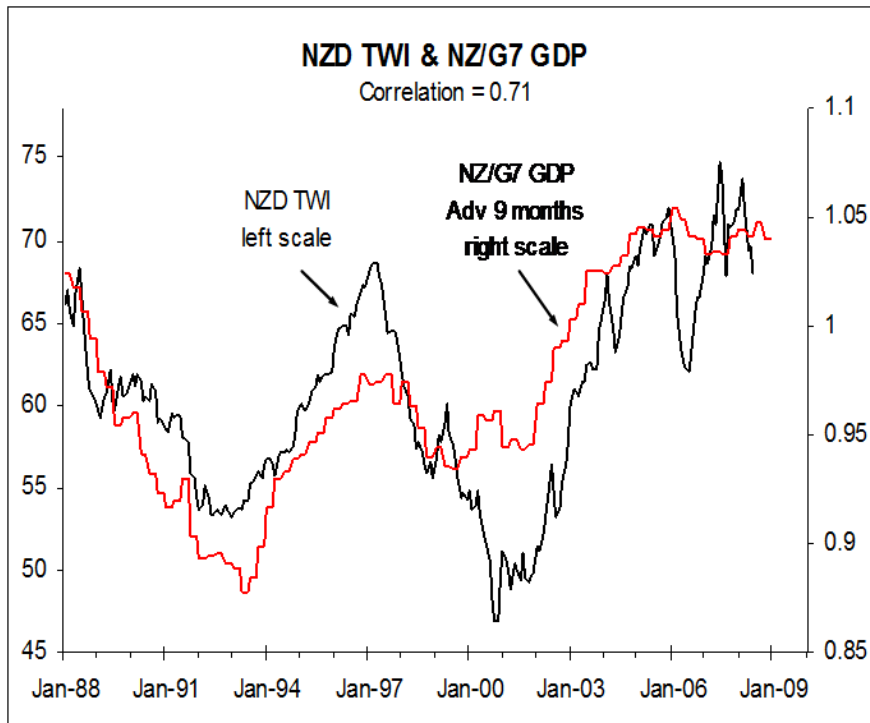
# Central banks all over the world are worried about inflation expectations





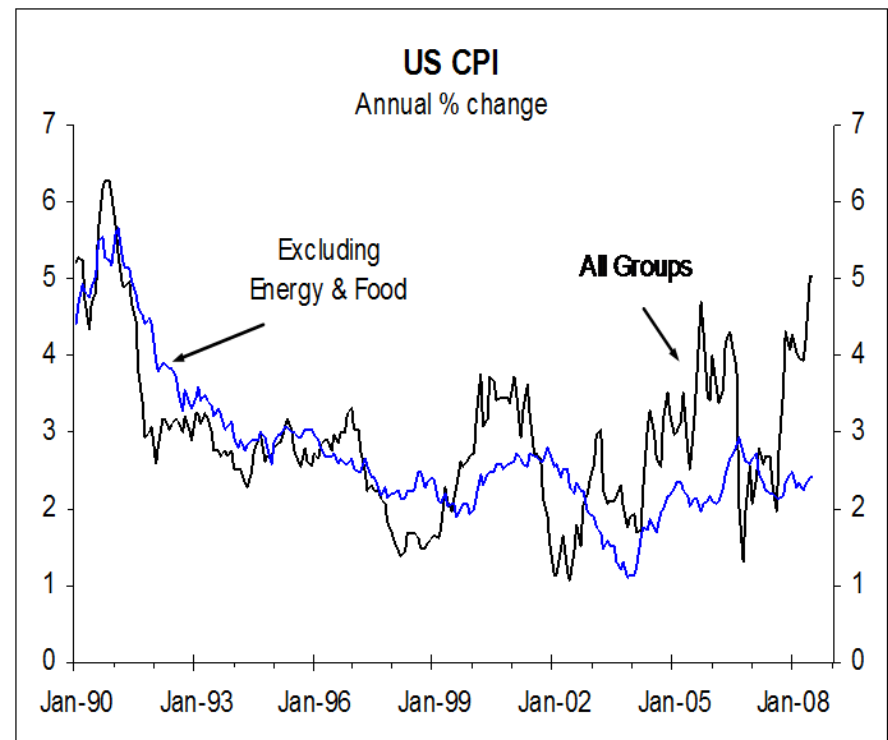
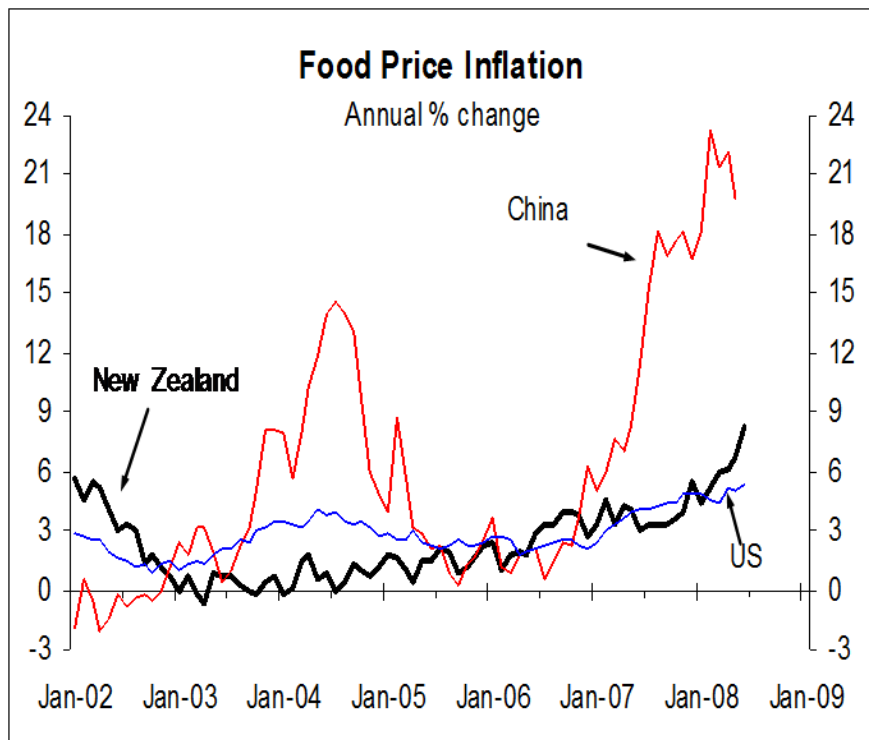


## When virtuous economic cycles turn vicious



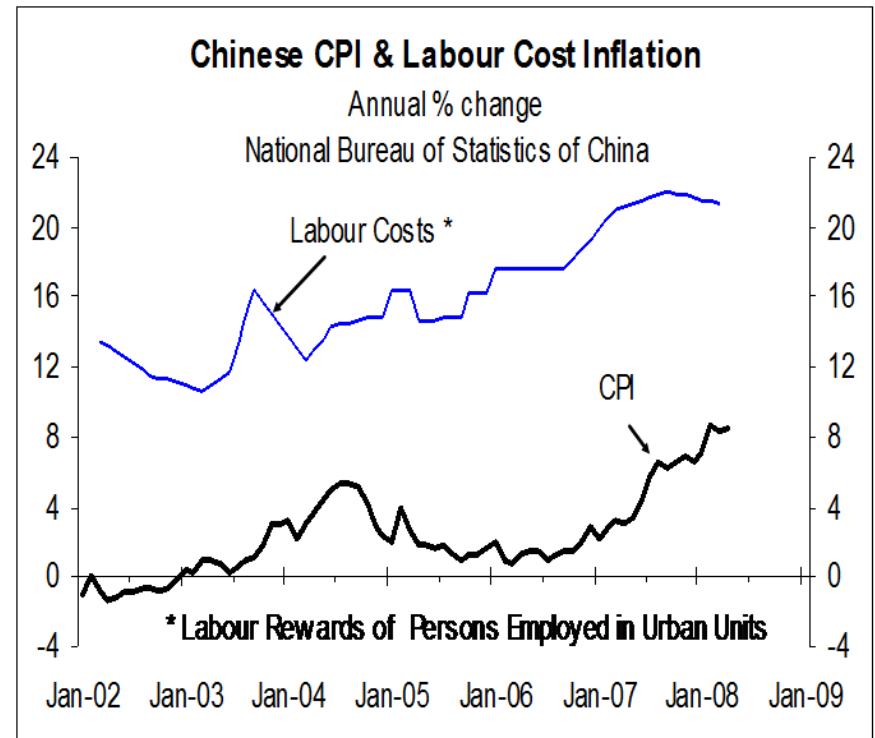
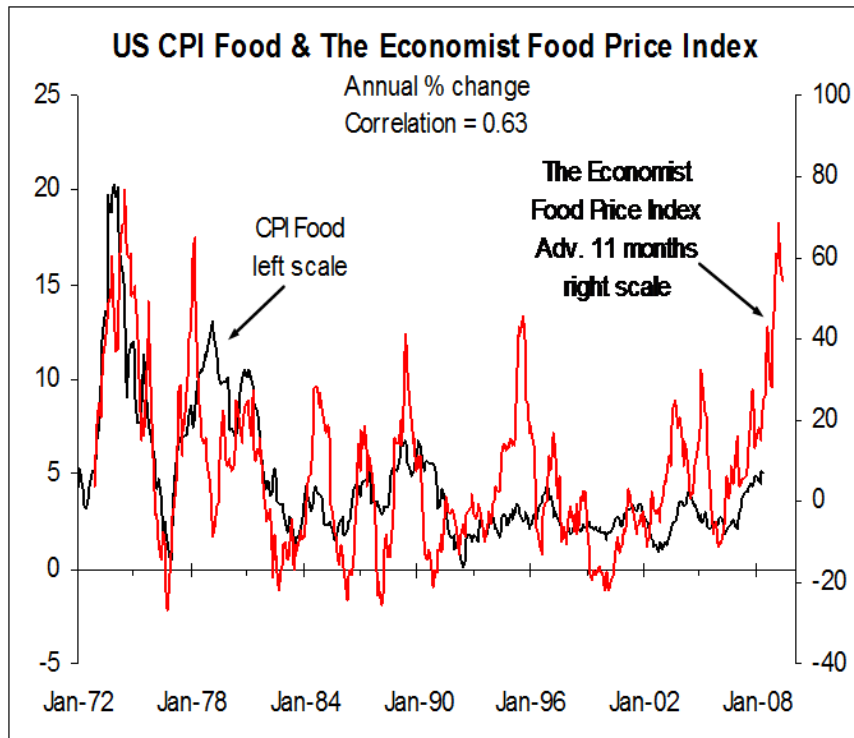


## Some implications of the international inflation threat





## Food prices and the international wage inflation threat





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