



# Construction costs in NZ rising

Developers are feeling the pinch as New Zealand construction costs put us in the big league, writes LIZ McDONALD.

**B**lame the rise of China and India, blame the housing market slowdown, blame the credit crunch. Construction in New Zealand is expensive and getting more so.

In fact, research just out shows that comparing building costs around the world, Christchurch is dearer than Beijing, Auckland dearer than Las Vegas and Wellington dearer than Dubai.

Within New Zealand, Christchurch is still the cheapest of the three main centres in which to build, with Wellington dearest and Auckland second, but the gap is closing.

Christchurch had the biggest rise of 3 per cent in construction costs of the main centres in the nine months to July, according to the report, a study of international construction costs done by researcher Rider Levett Bucknall.

Christchurch property developer John Fowler, managing director of Fowler Development, says the going is getting tough.

"We had an 18% rise in the price of steel from the first of September – this is the third price rise in 12 months and they've been major increases," Fowler says.

"These price rises are significant and they are having a huge effect. We pay very expensive prices for materials in New Zealand."

Fowler says higher fuel costs, the strength of the Kiwi dollar and compliance costs are also a problem.

Labour makes up only 10% to 15% of the cost of a project and is not a major factor, he says.

"Staffing overheads are high; it's not as if the guys on the tools are making a fortune. We've got huge compliance costs – it's all the red tape and the bureaucracy."

Registered Master Builders Federation spokeswoman Tracey Bree agrees with Fowler that rising costs, particularly for steel, are putting pressure on the construction business.

"As well, we are experiencing a softening market," Bree says.

"We have been telling our builders they need to have sound business practices so they can adapt to changes in the market and keep their competitive edge."

As well as competing with fast-growing Asian cities for materials and being buffeted by the financial fallout from the American sub-prime mortgage crisis, local construction is being affected by factors closer to home.

The Rider Levett Bucknall report found that in Christchurch, demand for new buildings had dropped in recent months, partly because of the slow-down in the housing market and the impact of tighter credit and higher interest rates.

The report says it "remains to be seen" what further effect weak national economic activity may have on construction.

However, the researchers found that New Zealand is now not far behind Australia with its building costs.

They say that while resource-rich Australia is partly sheltered from global movements, New Zealand is more exposed to things such as high

interest rates.

"In New Zealand, the lack of availability of funding has had more serious impacts on construction," the report says.

It noted that the shortage of construction workers was also pushing building prices up.

But with many of the inflationary factors global, New Zealand is not alone with its fast-rising building costs.

"Our research indicates that in 2008, New York, London and Honolulu are the most costly cities in our global analysis in which to build," says the company's manager of research and development, Roger Hogg.

Singapore, Dubai, Hong Kong and then Perth had the fastest-rising building costs.

Within Australia, the researchers found that the boom states of Western Australia and Queensland were pulling resources of both labour and materials away from the traditional strongholds Victoria and New South Wales.

Brian Dackers, Rider Levett Bucknall's global chairman, says the credit squeeze has slowed down construction worldwide, although this is hitting advanced rather than emerging economies.

Dackers says global growth is forecast to slow markedly this year, with the American economy bumping along the bottom of its cycle before an expected recovery next year.

Meanwhile, the emerging economies are catching up and making strides towards becoming major players, he says.



## UNDER CONSTRUCTION

Major construction projects under way in and around Christchurch include:

- The \$75 million expansion of Westfield Mall at Riccarton.
- C1 hotel and apartment tower on Gloucester Street.
- Novotel hotel on the Warners site in Cathedral Square.
- Club Tower office building on Worcester Boulevard.
- Hazeldean Business Park on Lincoln Road.
- Ferrymead apartment complex on estuary frontage.
- New Sydenham police station on Colombo Street.
- The McFarlane Group's Manchester/Worcester streets office complex.
- Development of the former Turners and Growers site.
- Redevelopment of the Feltex site in Upper Riccarton as retirement housing.
- Major new or expanding subdivisions include Aidenfield, Prestons, Pegasus and Wigram.



Rising costs: price rises for materials, labour and finance are adding up for developers