

# Building Consents

## NZ Consents — Treats, Not Tricks

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There remains little to be scared of in building consents numbers. Residential has remained strong all year despite soft housing market activity (which appears it may be turning) and weaker industry sentiment. Non-residential may be easing, but with a healthy pipeline we anticipate any downturn will be modest. With interest rates at record lows and continued high migration we see little reason why construction activity will not remain elevated for the foreseeable future.

### Headline residential number hits cyclical high

September consents of 39.8k (annualised) was the highest headline number since June 2004. The +7% mom/+24% yoy surge was largely driven by a big contribution from inherently variable apartments in Auckland and Wellington. Beneath this noise houses, -5% mom/+1% yoy, were the softest this year, but only by a touch. Overall floor area consented, the best measure of future construction activity, was up +13% yoy taking YTD to +7%.

Residential consents have been strong all year (despite relatively widespread concerns that the market may be softening). Strength has been geographically broad based including all NZ's largest construction regions: past six months Auckland +11% yoy, Canterbury +12%, Waikato +13%, Wellington +8%, and Bay of Plenty +7% (which collectively account for c.80% of construction activity). The resilience in Auckland remains notable given softness earlier in the year and housing market challenges, highlighting mid-market demand is robust.

### Non-residential potentially has peaked, but pipeline still healthy

September continues a string of softer months for non-residential consents, up +11% in value terms, but down -23% in floor area (sqm) taking the past four months to +6% yoy in value and -24% in sqm. When coupled with anecdotes of a thinning pipeline (largely in Auckland), we do suspect investment could soften medium-term. That said, we expect any downturn to be relatively modest. The pipeline is healthy, over the past 12 months value consented is up +13% and sqm +5%, with strong economic and population growth over recent history necessitating investment across most segments.

### NZ building materials companies (12m forward)

Company	Rating	Share price (NZ\$)	Target price (NZ\$)	Total 12m est. return
FBU	U/P	\$4.58	\$4.65	+6.6%
MPG	NEUTRAL	\$0.33	\$0.50	+59.2%
STU	NEUTRAL	\$0.90	\$1.00	+17.4%

Source: Forsyth Barr analysis

Company	EV / EBITDA (x)	EV / EBIT (x)	PE (x)	Cash dividend yield (%)
FBU	5.9	8.3	12.7	5.1%
MPG	3.5	5.3	4.1	7.6%
STU	5.8	8.1	11.1	6.3%

Source: Forsyth Barr analysis

Figure 1. NZ building consents (September 2019)

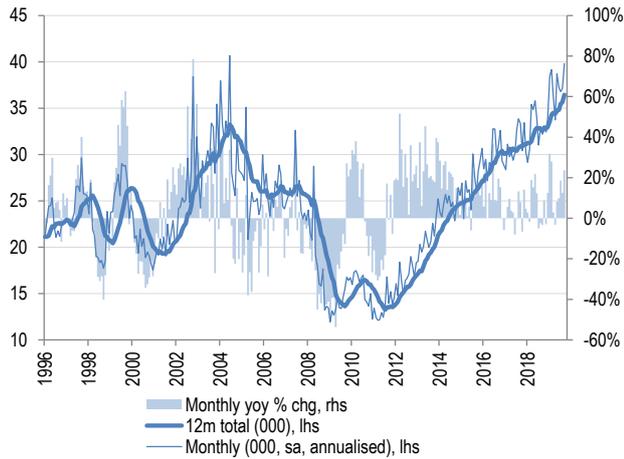
	1 month	3 months	6 months	Annual
<b>Residential</b>				
<b>Consented dwellings (#)</b>				
Detached houses ('000s)	21.1	21.8	21.7	22.0
Total ('000s)	39.8	37.9	37.2	36.4
<b>yoy % chg</b>				
Detached houses	1.2%	8.2%	3.4%	6.1%
Total	23.7%	18.2%	11.3%	12.0%
Total floor area	13.5%	10.4%	4.8%	5.4%
<b>Non-residential</b>				
Total (NZ\$m)	618	1,827	3,833	7,580
yoy % chg	11.1%	9.3%	13.1%	12.7%

Source: Statistics NZ, Forsyth Barr analysis

### Investment View

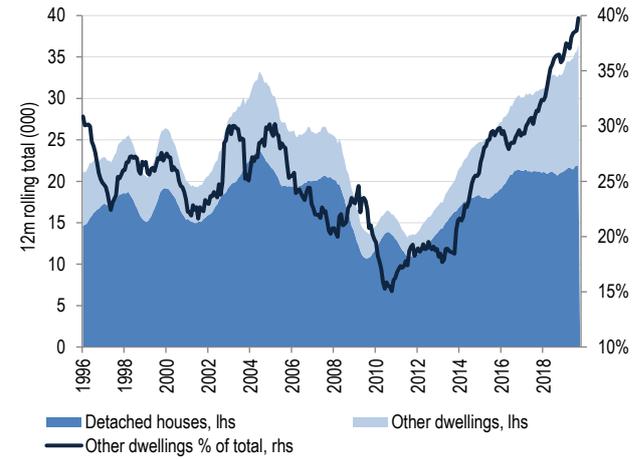
Whilst NZ-building related stocks headline valuation multiples appear prima facie attractive relative to the broader market, in our view these fairly reflect elevated NZ construction activity and company-specific issues.

Figure 2. NZ residential consents



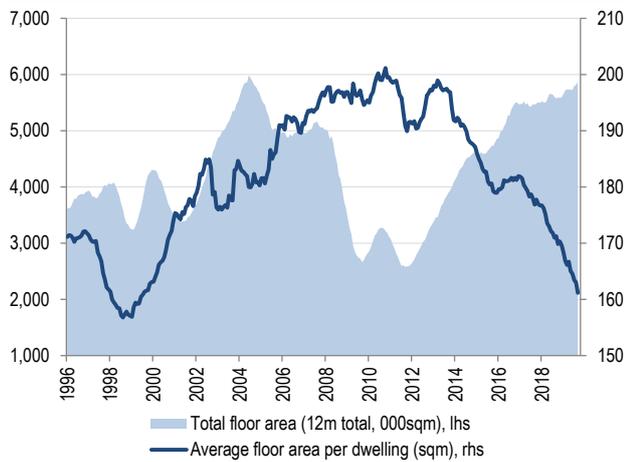
Source: Statistics NZ, Forsyth Barr analysis

Figure 3. NZ residential consents: houses vs. other dwellings



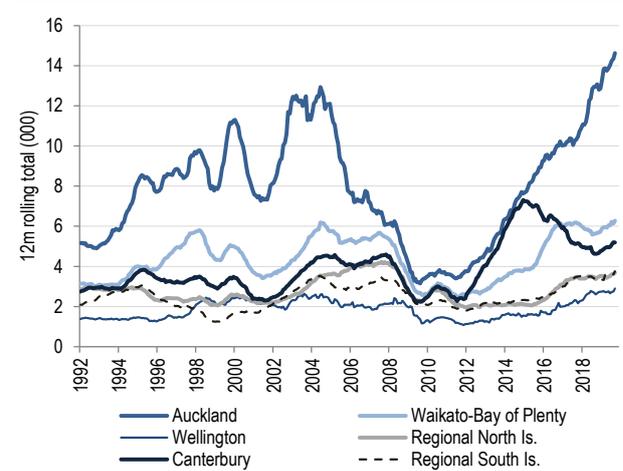
Source: Statistics NZ, Forsyth Barr analysis

Figure 4. NZ residential floor area consented



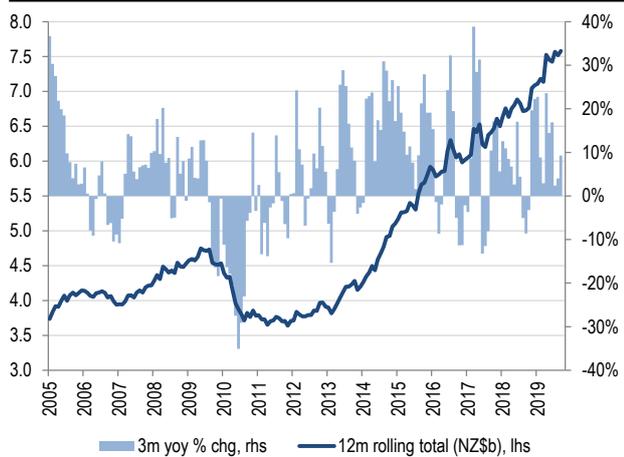
Source: Statistics NZ, Forsyth Barr analysis

Figure 5. NZ residential consents by region



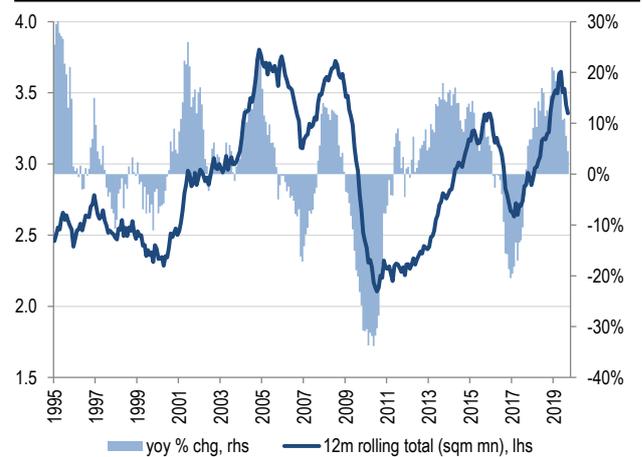
Source: Statistics NZ, Forsyth Barr analysis

Figure 6. NZ non-residential consents (value)

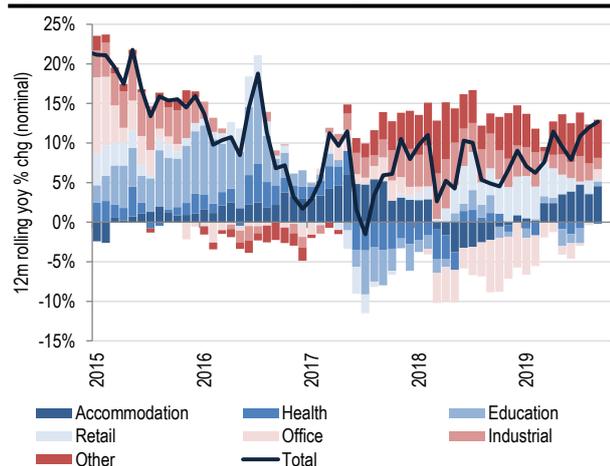


Source: Statistics NZ, Forsyth Barr analysis

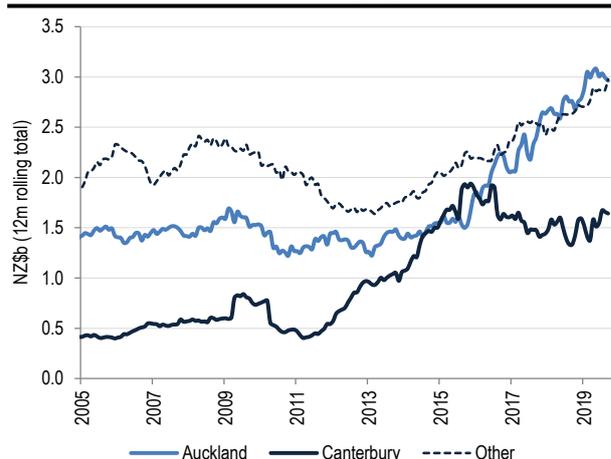
Figure 7. NZ non-residential consents (sqm)



Source: Statistics NZ, Forsyth Barr analysis

**Figure 8. NZ non-residential consents by sector**


Source: Statistics NZ, Forsyth Barr analysis

**Figure 9. NZ non-residential consents by region**


Source: Statistics NZ, Forsyth Barr analysis

**Figure 10. NZ building consents (September 2019)**

	1 month	3 months	6 months	Annual
<b>Residential</b>				
<b>Consented dwellings (yoy % chg)</b>				
Auckland	33.8%	17.7%	10.7%	13.0%
Waikato-Bay of Plenty	26.3%	14.2%	10.4%	11.6%
Wellington	78.1%	43.7%	13.5%	11.3%
Regional North Island	28.9%	19.9%	14.0%	9.4%
Canterbury	-0.6%	20.0%	11.7%	12.0%
Regional South Island	52.8%	20.5%	8.9%	11.3%
Detached houses	1.2%	8.2%	3.4%	6.1%
Apartments	184.2%	37.0%	21.4%	17.8%
Retirement village units	6.7%	13.3%	4.0%	17.1%
Townhouses, flats, units	61.3%	43.2%	33.3%	26.7%
<b>Non-residential</b>				
<b>Regional (value) yoy % chg</b>				
Auckland	-11.6%	-5.7%	-2.1%	7.4%
Canterbury	-14.4%	36.2%	44.8%	23.1%
Other	56.3%	15.5%	15.2%	13.0%
<b>Total</b>	<b>11.1%</b>	<b>9.3%</b>	<b>13.1%</b>	<b>12.7%</b>
m2 (000)	191	704	1,626	3,356
yoy % chg	-22.8%	-17.3%	-7.9%	4.5%
<b>Key sectors (value) yoy % chg</b>				
Accommodation	144.5%	63.0%	52.1%	52.5%
Health	3.3%	64.5%	11.3%	-3.0%
Education	10.0%	19.8%	-3.2%	3.7%
Retail	-35.3%	-22.3%	-17.2%	2.3%
Office	36.3%	20.3%	16.3%	8.7%
Industrial	-1.1%	-1.0%	7.9%	6.0%

Source: Statistics NZ, Forsyth Barr analysis

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