

# Building Consents

## NZ Consents — Strong

Consents in October were strong across the board. Residential, which has been positive all year, saw a very healthy 39.4k (annualised) headline number including the highest number of detached dwellings this year. Non-residential was also strong following a series of softer months. With housing data generally having improved in recent months (including in the Auckland market), concerns of any imminent slowdown in residential construction should now have dissipated. 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.

### Residential strong headline and composition

October consents, -1% mom/+19% yoy, backed up September's 15-year high. The composition was firmer still, with the highest number of detached houses this year, up +7% mom/+5% yoy. Growth does remain dominated by smaller, multi-tenanted dwellings as the market responds to affordability challenges. High-density dwellings comprised a record 40% of total consents over the past 12 months and 55% in Auckland. Overall floor area consented, the best measure of future construction activity, was up +9% yoy taking YTD to +6%.

Geographical strength remains broad based with, over the past six months, Auckland up +17% yoy, Canterbury +11%, Waikato +15%, Wellington +44%, and Bay of Plenty +10% (these regions collectively account for c.80% of NZ's residential construction activity).

### Firmer month for non-residential

After a string of softer months for non-residential, November was firmer, flat in value terms, but up +37% in floor area (sqm). That takes the past six months to +2% yoy in value and -9% in sqm. Non-residential consents are inherently variable. We do hear anecdotes are that the pipeline is thinning (largely in Auckland); however, we maintain the view any downturn will likely be relatively modest. The pipeline is healthy, and strong economic and population growth over recent history should underpin investment across most segments.

Figure 1. NZ building consents (October 2019)

	1 month	3 months	6 months	Annual
<b>Residential</b>				
<b>Consented dwellings (#)</b>				
Detached houses ('000s)	22.8	22.1	22.0	22.1
Total ('000s)	39.4	38.8	38.2	36.9
<b>yoy % chg</b>				
Detached houses	5.3%	5.3%	3.8%	5.4%
Total	18.9%	18.4%	15.1%	12.2%
Total floor area	8.9%	8.4%	6.2%	5.8%
<b>Non-residential</b>				
Total (NZ\$m)	621	1,790	3,536	7,579
yoy % chg	-0.2%	0.7%	1.5%	12.1%

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.

Matt Henry, CFA

[matt.henry@forsythbarr.co.nz](mailto:matt.henry@forsythbarr.co.nz)

+64 9 368 0115

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

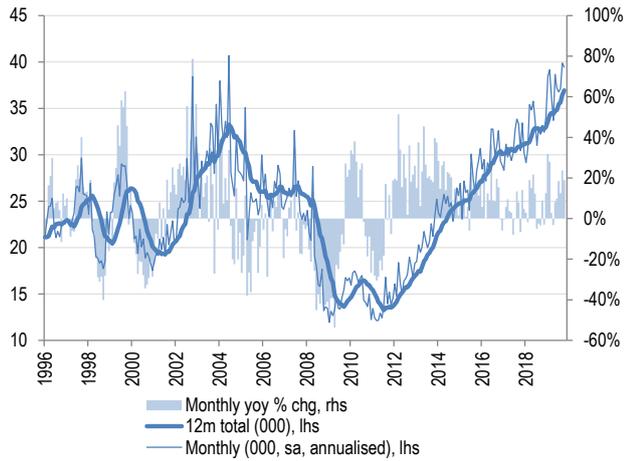
Company	Rating	Share price (NZ\$)	Target price (NZ\$)	Total 12m est. return
FBU	U/P	\$5.23	\$4.85	-3.0%
MPG	NEUTRAL	\$0.30	\$0.35	+26.2%
STU	O/P	\$0.82	\$1.05	+33.9%

Source: Forsyth Barr analysis

Company	EV / EBITDA (x)	EV / EBIT (x)	PE (x)	Cash dividend yield (%)
FBU	6.8	9.8	15.2	4.3%
MPG	2.7	4.7	4.2	9.5%
STU	5.9	8.6	11.7	5.9%

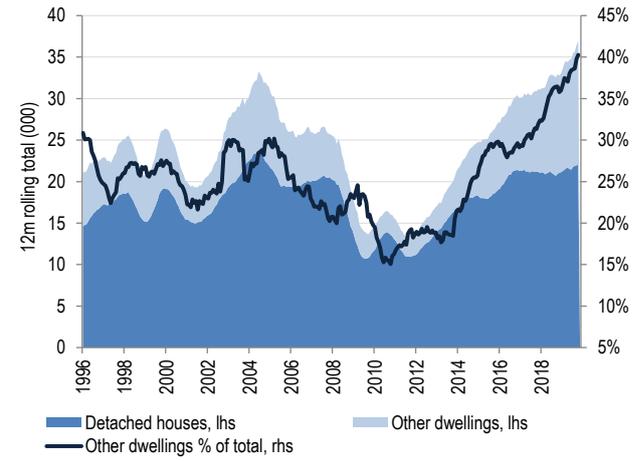
Source: Forsyth Barr analysis

Figure 2. NZ residential consents



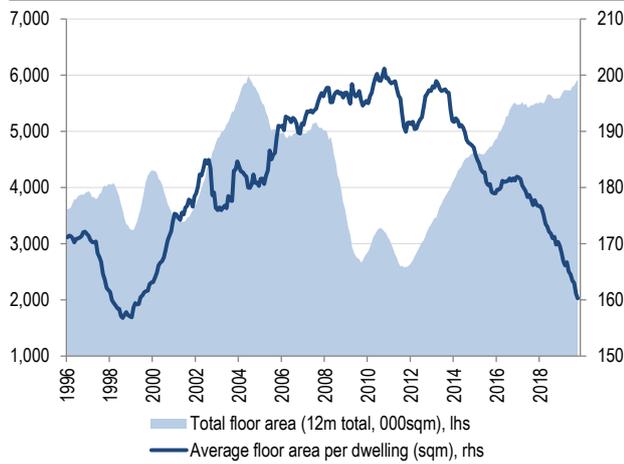
Source: Statistics NZ, Forsyth Barr analysis

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



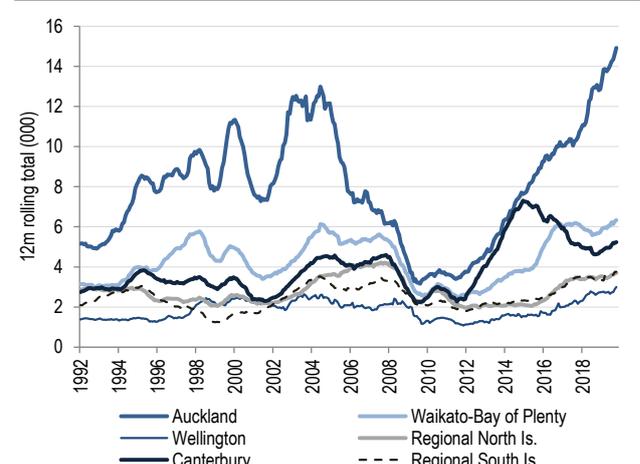
Source: Statistics NZ, Forsyth Barr analysis

Figure 4. NZ residential floor area consented



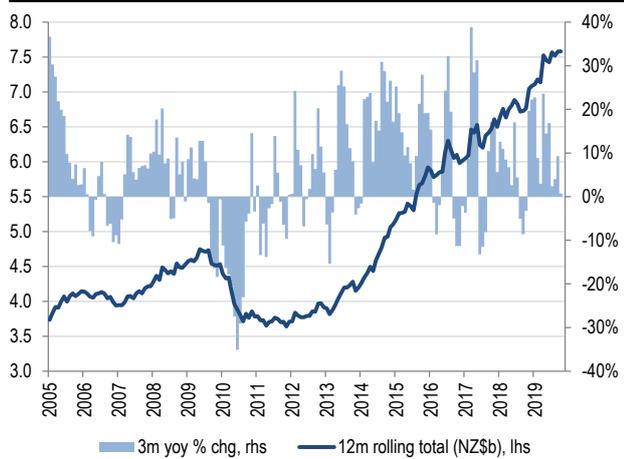
Source: Statistics NZ, Forsyth Barr analysis

Figure 5. NZ residential consents by region



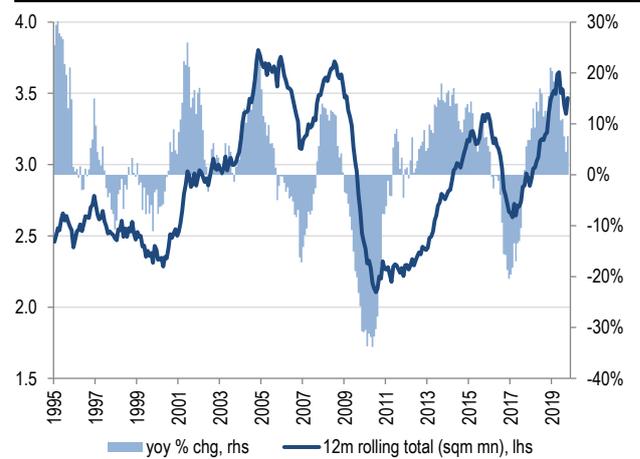
Source: Statistics NZ, Forsyth Barr analysis

Figure 6. NZ non-residential consents (value)



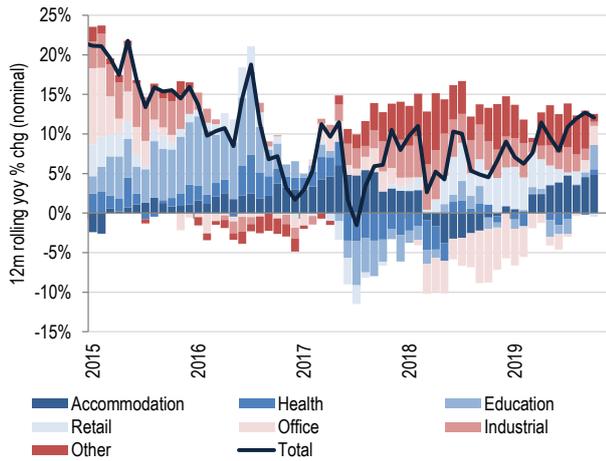
Source: Statistics NZ, Forsyth Barr analysis

Figure 7. NZ non-residential consents (sqm)



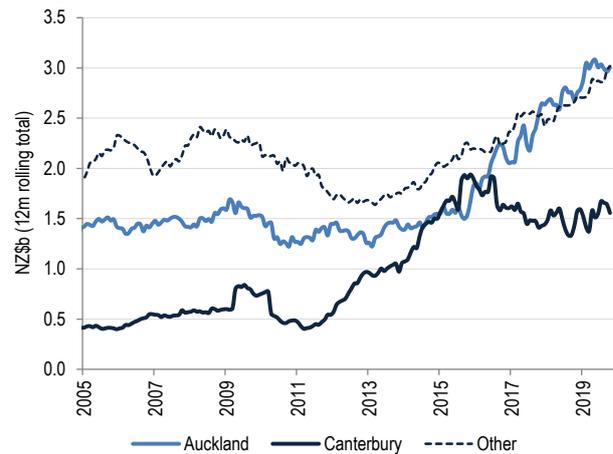
Source: Statistics NZ, Forsyth Barr analysis

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 (October 2019)

	1 month	3 months	6 months	Annual
<b>Residential</b>				
<b>Consented dwellings (yoy % chg)</b>				
Auckland	26.4%	21.1%	16.6%	14.1%
Waikato-Bay of Plenty	11.4%	6.5%	13.3%	11.6%
Wellington	43.3%	43.7%	18.6%	12.5%
Regional North Island	1.6%	9.9%	14.7%	7.2%
Canterbury	8.8%	11.7%	11.2%	12.2%
Regional South Island	0.3%	18.5%	9.7%	9.8%
Detached houses	5.3%	5.3%	3.8%	5.4%
Apartments	98.9%	39.0%	37.5%	19.7%
Retirement village units	93.0%	36.9%	16.0%	28.9%
Townhouses, flats, units	24.3%	42.6%	37.6%	24.9%
<b>Non-residential</b>				
<b>Regional (value) yoy % chg</b>				
Auckland	19.9%	-4.3%	-3.7%	12.3%
Canterbury	-49.2%	-31.3%	-3.9%	9.1%
Other	17.6%	23.5%	9.4%	13.4%
<b>Total</b>	<b>-0.2%</b>	<b>0.7%</b>	<b>1.5%</b>	<b>12.1%</b>
m2 (000)	411	794	1,654	3,468
yoy % chg	37.4%	-7.1%	-9.1%	7.6%
<b>Key sectors (value) yoy % chg</b>				
Accommodation	103.1%	51.8%	66.9%	52.9%
Health	302.0%	71.0%	27.1%	9.6%
Education	61.9%	75.7%	2.3%	22.1%
Retail	-26.4%	-11.2%	-21.8%	-3.1%
Office	87.5%	20.2%	20.4%	18.4%
Industrial	-17.3%	-15.3%	-1.9%	2.2%

Source: Statistics NZ, Forsyth Barr analysis

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