

Building Consents

NZ Consents — Best Since '73

It has been a big year for residential consents. A strong month in December rounds out the highest number in a calendar year since 1973 (which, to make some feel old, was the year colour television came to the country). Non-residential has not been as strong, and, whilst inherently variable, the trend increasingly appears to be down. That said, the pipeline is healthy; in floor area (sqm) consented, 2019 consents were the highest in 11 years. We maintain the view that NZ construction activity will remain elevated for the foreseeable future, but do suspect that growth in work done will not match that of consents due to constraints around capacity (chiefly), credit, and construction company profitability.

Low rates, high migration, and tight supply underpin residential boom

Record low interest rates, high migration, and tight supply of existing homes have all fuelled demand for new houses in all key regions of the country. December consents, +10% mom/+16% yoy, bounced off a modestly slower November. For the calendar year consents were up +14%. Housing unaffordability does continue to drive a shift to higher-density dwellings, which were up +29% over the year, to comprise a record 41% of total residential consents (including 55% of Auckland). Stand-alone house consents were solid up +5% yoy, and total floor area consented (the best indicator of future construction activity) +6%.

Non-residential trend easing, but pipeline healthy

Whilst the inherent variability in non-residential consents can make trend spotting difficult, consents over the past seven months, flat in value, but -14% in sqm, do suggest a likely softening trend. This is consistent with the anecdotes we hear that the pipeline is thinning (largely in Auckland). We maintain the view that any downturn will likely be relatively modest given the healthy pipeline, and lagged needs for investment following strong economic and population growth over a large part of the past decade.

Figure 1. NZ building consents (December 2019)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (#)				
Detached houses ('000s)	22.8	22.7	22.3	22.2
Total ('000s)	39.3	38.0	37.9	37.5
yoy % chg				
Detached houses	6.9%	4.4%	6.3%	5.1%
Total	15.8%	14.1%	16.1%	13.8%
Total floor area	11.9%	4.1%	7.2%	6.0%
Non-residential				
Total (NZ\$m)	587	1,851	3,678	7,453
yoy % chg	11.9%	-6.5%	0.8%	5.2%

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.

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NZ building materials companies (12m forward)

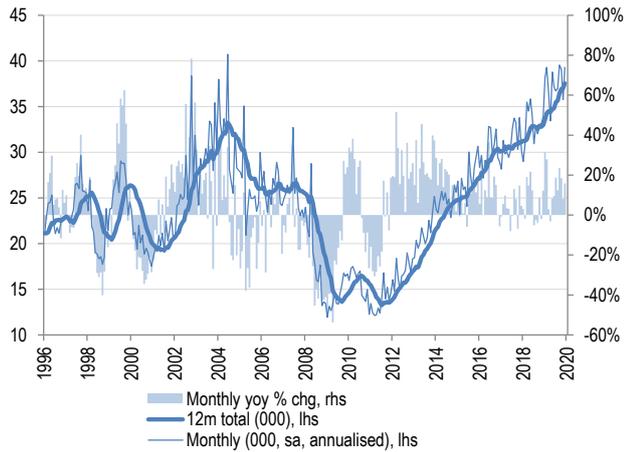
Company	Rating	Share price (NZ\$)	Target price (NZ\$)	Total 12m est. return
FBU	U/P	\$5.42	\$4.85	-6.3%
MPG	NEUTRAL	\$0.26	\$0.35	+48.7%
STU	O/P	\$0.80	\$0.95	+23.5%

Source: Forsyth Barr analysis

Company	EV / EBITDA (x)	EV / EBIT (x)	PE (x)	Cash dividend yield (%)
FBU	5.4	9.3	16.4	4.2%
MPG	2.5	4.3	3.5	14.0%
STU	3.3	6.4	14.3	4.8%

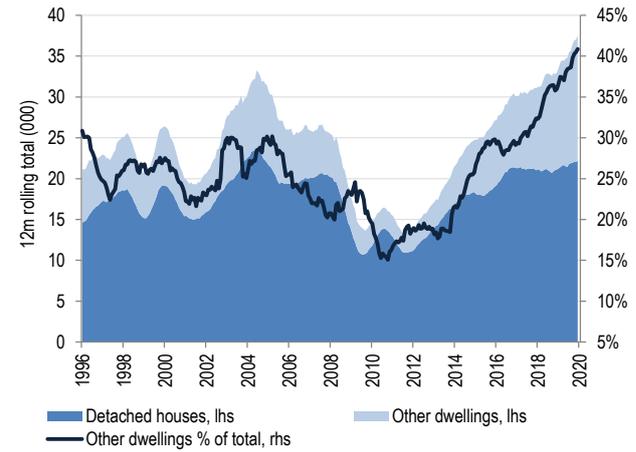
Source: Forsyth Barr analysis

Figure 2. NZ residential consents



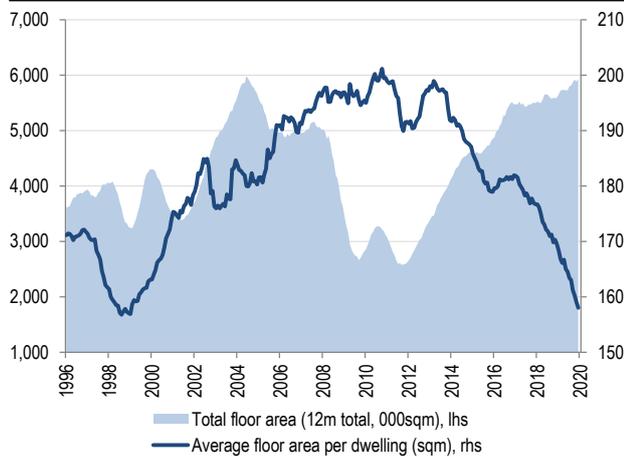
Source: Statistics NZ, Forsyth Barr analysis

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



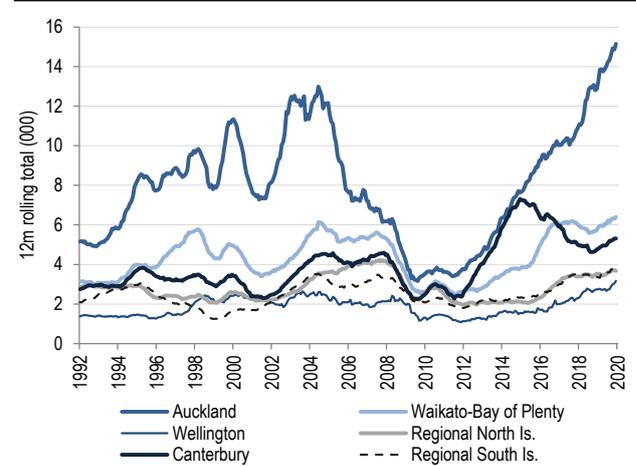
Source: Statistics NZ, Forsyth Barr analysis

Figure 4. NZ residential floor area consented



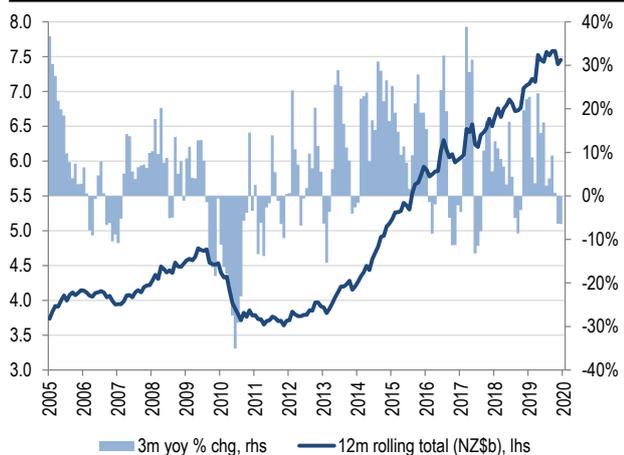
Source: Statistics NZ, Forsyth Barr analysis

Figure 5. NZ residential consents by region



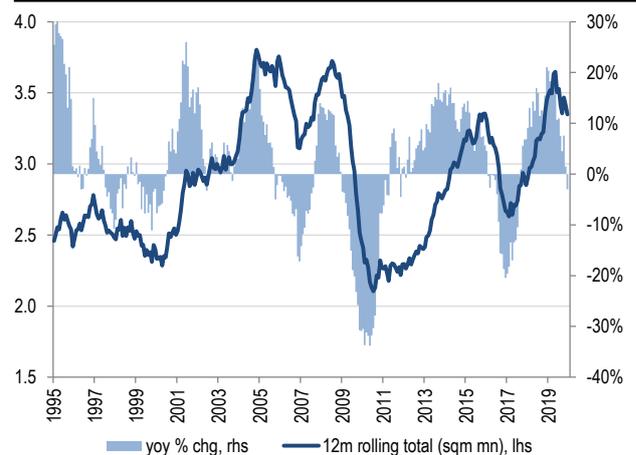
Source: Statistics NZ, Forsyth Barr analysis

Figure 6. NZ non-residential consents (value)



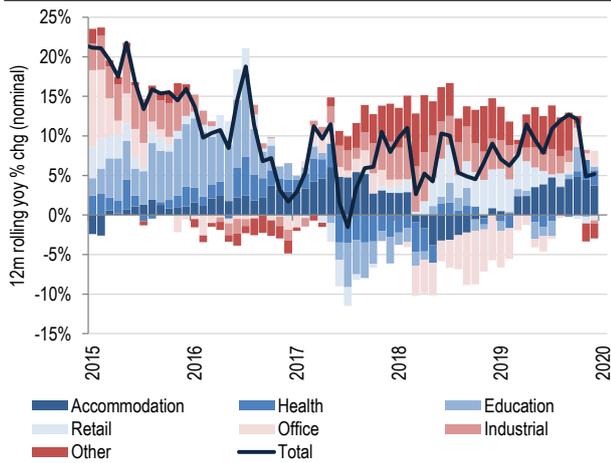
Source: Statistics NZ, Forsyth Barr analysis

Figure 7. NZ non-residential consents (sqm)



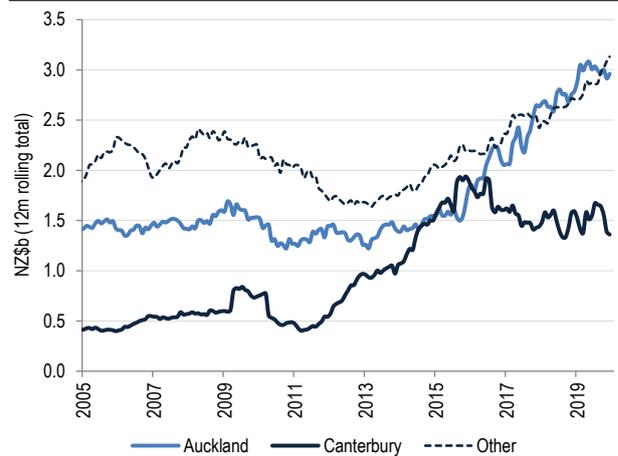
Source: Statistics NZ, Forsyth Barr analysis

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 (December 2019)

	1 month	3 months	6 months	Annual
Residential				
Consented dwellings (yoy % chg)				
Auckland	30.7%	16.3%	17.0%	17.8%
Waikato-Bay of Plenty	22.6%	8.4%	11.4%	11.5%
Wellington	87.9%	41.6%	42.5%	16.2%
Regional North Island	-16.4%	-1.4%	8.5%	4.1%
Canterbury	-0.5%	8.8%	14.2%	13.8%
Regional South Island	27.1%	8.5%	14.6%	14.0%
Detached houses	6.9%	4.4%	6.3%	5.1%
Apartments	38.1%	43.6%	39.3%	34.1%
Retirement village units	-34.9%	13.5%	13.4%	30.2%
Townhouses, flats, units	69.2%	29.4%	35.8%	26.4%
Non-residential				
Regional (value) yoy % chg				
Auckland	22.3%	-0.2%	-3.0%	6.3%
Canterbury	-22.2%	-48.9%	-22.4%	-14.6%
Other	26.6%	23.2%	19.3%	15.7%
Total	11.9%	-6.5%	0.8%	5.2%
m2 (000)	194	906	1,611	3,348
yoy % chg	-25.3%	-0.8%	-8.8%	-3.0%
Key sectors (value) yoy % chg				
Accommodation	19.6%	38.7%	50.9%	37.5%
Health	-61.2%	115.9%	93.5%	29.0%
Education	54.6%	-17.8%	-3.8%	3.1%
Retail	36.0%	5.0%	-9.9%	-4.4%
Office	34.3%	2.6%	11.8%	16.7%
Industrial	-24.3%	-13.9%	-7.3%	-1.5%

Source: Statistics NZ, Forsyth Barr analysis

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