

Hastings place-based approach: progress report to 31 March 2021 (BRF20/21040925)

2. **Note** that delays related to COVID-19 such as supply chain issues meant that the first of these homes were delivered in late 2020, with most set for delivery by the end of 2021, and the remainder are now due between March and June 2022

Noted

4. As a short-term response, partners committed to deliver around 200 new public and affordable houses by mid-2021. The impacts of COVID-19 (including supply chain issues affecting availability of building products) have pushed back delivery for most of these commitments to late 2021, and the remainder to between March and June 2022.

| Project | Lead organisation(s) | Deliverables | Status | Comment |
|---------------------------|----------------------|--|--------|---|
| Kāinga Ora public housing | Kāinga Ora | Completed: 59 net units | | Hastings Tranche 2 (40 homes) has seen delays resulting from supply chain issues and delivery has been pushed back to between March and June 2022. Intensive engagement is underway with contractors to ensure June delivery is met. Hastings infill programme is under way and making good progress. Recently completed homes at Bledisloe Place (Elephant project) have been handed over. |
| | | By June 2021: an additional 21 net units | | |
| | | By June 2022: an additional 96 net units | | |
| | | Total: 176 net new units | | |

Housing Market Update May 2021

Supply and labour constraints and the potential loss of labour are an increasing concern for the construction sector, increasing risk to output and businesses.

- **Large increases in supply costs** have quickly become a leading concern for the sector. Pricing intentions are at record highs (ANZ) and the Cordell Housing Index Price (CHIP), which tracks residential construction cost changes has risen 3.26% in the year to March 2021, with 40% of that growth occurring in Q1 of 2021. HUD has seen evidence of additional high increases for a variety of materials being signalled across the sector.
- These costs primarily appear to be driven by global demand and supply chain issues and are not expected to be alleviated in the near term.
- There are concerns in the sector that increased costs will be passed on in the price of builds but also put developments and developers at risk where they have fixed price contracts with tight margins. Industry intelligence has indicated high pre-sale requirements by banks post-COVID and an increasing reliance on 2nd tier lending. This means a higher number of projects could be at risk than would previously have been the case.

Housing Market Update – May 2021 (IREQ20/21050939)

6. There is a healthy pipeline of construction work. Supply chain and labour constraints and the potential loss of labour to Australia are an increasing concern for the construction sector, increasing risk to output and businesses. (The Construction Sector Accord is undertaking a survey currently of supply chain issues which the sector are experiencing, and will provide the information in mid-June).

Housing Market Dashboard – April 2021

- Employment in the construction industry remains very strong, with filled jobs at its highest level since records began. Supply-chain issues and labour constraints have been noted as potential issues in the coming months.

- Supply-chain issues are becoming an increasing concern for the sector with intelligence suggesting this is pushing up prices. This has developed through the anticipated COVID induced demand slowdown not materialising alongside global supply chain and demand issues.

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Official Information Act 1982

AH 21 024

31 March 2021

Minister of Housing
Associate Minister of Housing (Public Housing)
cc: Vui Mark Gosche, Board Chair

Construction Materials Supply Chain – Risk and Management

Purpose

This paper provides information on the current situation concerning the supply chain of construction materials and products in New Zealand

Background

The COVID-19 pandemic has had a serious impact on global manufacturing, supply chains and logistics. The resulting trade imbalance is impacting imports to New Zealand for all goods and materials. The current boom in construction activity in New Zealand is adding an additional constraint to the market, as demand is far exceeding forecasts and available supply.

Impact of COVID-19 on global supply chains and logistics

Countries across the globe have experienced COVID-19 outbreaks at different times as the pandemic spread from its epicentre and, consequently, introduced lockdowns, and halted economic movements and production. The impacts of this have resulted in constraints in supply due to:

- reduced productivity
- the flow of imports and exports changing
- the impact on the flow of shipping movements.

Interruptions to production caused large numbers of shipping containers to be stranded at ports leading to carriers reducing the number of vessels out at sea. This situation continues, with international shipping volumes considerably reduced.

Global Container Shortage

There is currently a global shortage of shipping containers due primarily to a severe trade contraction in the first half of 2020 that led to the cancellation of sailings. Increased economic activity in China in the second half of 2020 resulted in a resurgence in trade demand as well as the peak period demand for goods in western markets due to Christmas and New Year holidays.

However, demand for American and European goods from Asian markets has been weak, meaning that most containers worldwide are stranded in European and American ports. The result of this has been a worldwide logistics backlog and empty containers not being

where they are needed. The limited access to containers is, in turn, driving up the cost of new containers.

Auckland Port Congestion

The Ports of Auckland is currently operating only three of its eight ship-to-shore cranes during the day (two at night) due to a labour shortage. It is currently seeking to recruit five crane operators from overseas but it is unknown when the first candidates will arrive in New Zealand. Completion of the Ports of Auckland terminal automation project, due at the end of March 2021, has also been delayed due to freight processing taking priority.

As a result, container ships are waiting at sea for 10 to 14 days to unload at Auckland; shipping lines are reducing their calls to Auckland; some are imposing Auckland congestion charges on import containers; and shipments can be re-directed to other ports, with little or no notice, if the shipping lines do not want to wait to be unloaded.

Other factors

Other factors affecting supply chains include:

- industrial action at Australian ports
- shipping cost increases of between 150 – 400 per cent as shipping lines focus traffic on the most profitable
- increased air freight costs due to reduced inbound flights to New Zealand
- reduced or non-production due to COVID-19 distancing measures in manufacturing operations
- unprecedented and unexpected demand from the construction sector boom in New Zealand
- supplier decisions prior to COVID-19 – for example, James Hardie manufacturing moved from Penrose and now all in Australia.

Kāinga Ora – Homes and Communities response to Carter Holt Harvey structural timber supply changes

Timber is in short supply across New Zealand due to high demand. This has resulted in significant price increases to timber products and lead times extending.

Kāinga Ora is supporting its build partners to work with their suppliers in order to ensure continued supply of structural grade timber.

Kāinga Ora spoke to all its major suppliers Monday 29 March 2021 following the Carter Holt Harvey announcement to cut its supplies of structural grade timber to Mitre 10 and ITM.

In summary, while Carter Holt Harvey is a major supplier of timber products, suppliers have other options in terms of mills that also produce this timber.

It is too early to say what the impact of current shortages will be on our national build programme. We are recommending our build partners place orders well in advance in case of delays. We will continue to monitor this changing situation and will offer any assistance we can to our partners.

Suez Canal Supply Chain impact

Current advice from Kāinga Ora National Supply Agreement partners is that the Suez Canal blockage (where the EverGiven became wedged and was re-floated a week later on Monday 29 March 2021 NZT) is unlikely to have impact on the supply chain in near future.

The ship was on its way North; however, the knock-on effect of the canal being blocked for over a week is a significant traffic jam of ships awaiting passage in both directions.

The Kāinga Ora National Supply Agreement Partners have advised that ample stocks are on hand of materials sourced and products manufactured in the Northern Hemisphere. The situation is being closely monitored and alternate products will be sourced, if required.

Risks to Kāinga Ora construction programmes

Collective supply chain continuity risks and impacts are highly likely to result in increases in the cost of materials to Kāinga Ora and could result in project delays and costs escalations. The cost of imported products or products that require imported components are likely to rise.

Products sourced from off-shore, which have previously been viewed as a lower cost alternative, may become uncompetitive when compared to locally sourced products due to dramatic logistics costs increases. The main risks for new construction are currently product availability for exterior timber, timber floor joists, and electrical cable used for power and lighting; increased lead times for some cladding; and supply of raw materials for paint products.

Kāinga Ora contracts materials supply for maintenance activities using National Supply Agreements (NSAs) and these contracts and stock forecasts are actively managed. The Maintenance and Retrofit programmes make effective use of these contracts and forecasting of activities for suppliers reduces the risk of supply shortages. In the current environment, contracted NSA suppliers are holding additional stock. Although this adds considerable risk to their balance sheets, they are not approaching Kāinga Ora for any support at this point in time.

Mitigation

Kāinga Ora is working closely with suppliers, manufacturers, and distributors to reduce the risks as far as possible. This includes ongoing intelligence gathering, supplier liaison, and mitigation planning.

Our Procurement team is providing regular updates to our Maintenance and Build Partners, based on information received from shipping companies; product suppliers and their suppliers; and market intelligence. The information shared is supporting Kāinga Ora scenario planning for the possibility that the situation dramatically worsens, and discussions regarding possible responses to project delays and impacts, and opportunities to support suppliers, if required.

Next steps

If the current demand for construction products continues at the same or increased level, there will be a heightened need for increased levels of forward forecasting both from Kāinga Ora and our Build Partners to ensure supply will be available when needed.

Kāinga Ora will continue to monitor the supply market and work through possible solutions to both shorter and longer term supply constraints, such as alternative products, improving forecasts and communication, and increasing stock levels.



Andrea Morton
Director Procurement and Supplier Management



Caroline McDowall
General Manager Commercial

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From: Fiona Montgomery
To: [EXT Jain Duncan](#)
Subject: response - Urgent feedback required

Hi Iain

Please see below in response to your earlier request of today.

Kainga Ora – Homes and Communities response to Carter Holt Harvey decision

- Timber is in short supply across New Zealand due to high demand. This has resulted in significant price increases to timber products and lead times extending.
- Kainga Ora is supporting its build partners to work with their suppliers in order to ensure continued supply of structural grade timber.
- Kainga Ora spoke to all its major suppliers this morning following the Carter Holt Harvey announcement to cut its supplies of structural grade timber to Mitre 10 and ITM.
- In summary, while Carter Holt Harvey is a major supplier of timber products, suppliers have other options in terms of mills that also produce this timber.
- It is too early to say what the impact of current shortages will be on our national build programme. However, we are hopeful that any impact will not be significant.
- We are recommending our build partners place orders well in advance in case of delays. We will continue to monitor this changing situation and will offer any assistance we can to our partners.
- Our Procurement Team has a good relationship with Carter Holt Harvey management. We will also keep in contact with them, as needed.

Regards

Fiona

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Fiona Montgomery

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REQUEST

From: Iain Duncan <[xxxx.xxxxxx@xxxxxxxxxx.xxxx.xx](#)>

Sent: Monday, 29 March 2021 1:19 PM

To: GRU Jobs <[xxxxxxxxxx@xxxxxxxxxx.xxxx.xx](#)>; Rachel Kelly <[xxxxxx.xxxxxx@xxxxxxxxxx.xxxx.xx](#)>

Subject: Urgent feedback required

Importance: High

Hi all

Further to the news over the weekend that Carter Holt Harvey is cutting timber supplies to Mitre 10, Bunnings and ITM etc will this have any impact on the work being done by Kainga Ora and is KO hearing anything from partners and stakeholders about this situation and how it is impacting on them?

The Minister would like an urgent update on this situation as soon as possible, as she may be asked by media around this topic today.

Many thanks.
Iain

Iain Duncan | Private Secretary (Housing)

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Office of Hon Dr Megan Woods

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