



*The Voice of Heritage
for New Zealand*

Patron: Dame Anne Salmond, DBR, FRSNZ, FBA
2013 New Zealander of the Year

4 March 2013

Building Seismic Performance
Ministry of Business, Innovation & Employment
P.O.Box 10-729
Wellington 6143

Proposals to improve the New Zealand earthquake-prone building system – Consultation Document – March 2013.

This submission is made by Historic Places Aotearoa Incorporated (HPA). HPA has been formed as a non-government national organisation to replace the role of the New Zealand Historic Places Trust (NZHPT) in representing and co-ordinating the activities of the new regional heritage bodies which will replace Branch Committees of the NZHPT under proposed legislation (Heritage New Zealand Bill).

Heritage is our core business to promote preservation of historic places in Aotearoa New Zealand. We also promote the education of the public in the appreciation of heritage values. We are a key stakeholder in the consultation process and answerable to our affiliated regional societies and membership.

HPA acknowledges the risks of earthquakes for New Zealand and the need to learn from the Canterbury earthquake experience and other historical earthquakes.

Whilst HPA applauds the Ministry of Business, Innovation & Employment for undertaking this review in response to the Royal Commission's report, the document only just touches on the wider issues we as a nation face when addressing our historical past through our heritage buildings and ever ageing building stock. It is also noted that the discussion document does not include post-emergency management roles and responsibilities. This

issue, as we understand it, will be covered in a separate discussion document to be released by Government in the near future.

HPA broadly supports objectives of the changes but has serious reservations about the impact they may have on the retention of New Zealand's built heritage if implemented as presently proposed.

HPA has made several recommendations which, if adopted, would address some of HPAs concerns. **Recommendations/suggestions are marked in bold through the text.**

We note the discussion document says key features of a better system might include achieving acceptable risk; better more accessible information; reasonable response times; limited exemptions and that important heritage buildings are preserved.

Instead of current individual earthquake-prone policies prepared by each territorial authority, it is proposed that Government develops one national policy applicable to all of New Zealand. This would require all authorities to undertake seismic capacity assessment of all non-residential buildings within 5 years of the legislative amendment. From then all earthquake-prone buildings are to be strengthened within 15 years.

HPA supports the overall approach by Government in terms of a national policy applicable countrywide with new compulsory seismic capacity assessment of buildings. In particular HPA supports the mandatory national requirement, the public register and the suggested exemptions and time extensions.

The discussion document appears to provide some greater degree of flexibility with possible provision for exemptions and time extensions for low risk buildings (i.e. isolated churches and farm buildings).

HPA supports this greater flexibility as there are many historical industrial mills, farm buildings and associated buildings from our pastoral, farming and meat industry past.

In terms of heritage buildings, the discussion document does not include an explicit recommendation or proposed approach for earthquake-prone heritage buildings. Despite this, the discussion document notes that the 'requirement to strengthen earthquake-prone buildings would take priority over other legal, regulatory and planning requirements, such as those designed to protect buildings of heritage or local character. This means that the requirements to strengthen or remove a building would take priority over any Resource Management Act requirement to protect the building'.

HPA is concerned about the proposal to strengthen or remove a building that would take priority over any RMA requirements to protect heritage. If the RMA consent process is removed, the result would lead to opportunistic and unnecessary demolition. It would lead to widespread demolition of New Zealand's historic heritage.

HPA supports robust assessment and processes for earthquake-prone heritage buildings with demolition as a 'last resort' and strengthening as always the first option.

HPA is concerned that there are no further details provided in the discussion document concerning how a priority system would be managed in terms of the interrelationship between the Building Act 2004 and the RMA. Clearly there is need for greater integration in

the management of earthquake-prone heritage buildings under the Building Act 2004 and RMA and this could involve a new consent provision in the RMA that could also manage instances of demolition by neglect (when generally RMA provisions are not triggered).

HPA would question the building assessment methodology process that is to be used to determine whether a building is earthquake prone. At a practical level, this seems critical to establishing which buildings will face the requirement to either repair or demolish. How confident can HPA be that the methodology is robust and will be applied consistently?

The figures presented show that pre-1976 buildings make up some 42% (81,000) of the total building stock and the overall cost to bring buildings up to at least 34% of NBS is a very expensive exercise facing building owners over the next couple of decades.

This issue will inevitably add further financial strain on an already fragile economic backdrop, let alone a nervous construction industry - highlighted by the recent collapse of Mainzeal and other flow on effects.

If the timeframes to strengthen or demolish EQPBs is kept too short, then there is likely to be a huge bottleneck of buildings appearing at the end of the timeframe and thus the country ends up having a large residual number of buildings becoming non-compliant under the new legislation.

HPA advocates for a risk-based approach with the possibility of staged timeframes that enable a priority focus on strengthening facades, hazardous elements such as parapets, gables, roof ornaments, verandas and so on. In other words a set staged approach for short, medium and long term outcomes.

Peter Dowell, Vice President of HPA, who holds a DipBusStd – Valuation & Property Management, has 22 years experience in Investment Banking with ANZ and is a heritage building owner for over 20 years has supplied the following comment.

Given that the building owners are unsure of when they are likely to strengthen their building/s and the fact that they will not be able to discount the cost (as financial models can) they will be paying **real dollars** as shown below (and in the source document).

With reference to page 24 of the source document (CBA Model Strengthening Costs- as attached) note that the NPV calculation through 15 years has been used in calculating a total cost of some \$1.717b for buildings <34%NBS.

Also shown is a m2 cost escalation calculation from \$300-\$600m2 to strengthen these buildings, to highlight how easily the costs could blow out over time.

The table below includes the following

- GST Benefit to the Government
- Increased rental income to the owners (10-15% increase m2)
- Increased Tax revenue

- Tax Cost to the Government through Incentives
- Payback Calculation in years

Modelling for EQPB <34%NBS					
Cost to Strengthen m2		\$ 300.00	\$ 400.00	\$ 500.00	\$ 600.00
No. Properties		17424	17424	17424	17424
Average Size of Building m2		688	688	688	688
Real Dollar Cost to Owners		\$ 3,596,313,600	\$ 4,795,084,800	\$ 5,993,856,000	\$ 7,192,627,200
GST Benefit to Government	15%	\$ 539,447,040	\$ 719,262,720	\$ 899,078,400	\$ 1,078,894,080
Total Area of Buildings		11,987,712			
		Income	Tax @ 28% p.a		
Increased Rental Income m2	\$ 20.0	\$ 239,754,240	\$ 67,131,187		
	\$ 30.0	\$ 359,631,360	\$ 100,696,781		
	\$ 50.0	\$ 599,385,600	\$ 167,827,968		
Expensing Strengthening Costs					
Tax Cost in total		\$ 1,006,967,808	\$ 1,342,623,744	\$ 1,678,279,680	\$ 2,013,935,616
Less GST		\$ 539,447,040	\$ 719,262,720	\$ 899,078,400	\$ 1,078,894,080
Cost to Government		-\$ 467,520,768	-\$ 623,361,024	-\$ 779,201,280	-\$ 935,041,536
Tax take on Rental Increase		\$ 100,696,781	\$ 100,696,781	\$ 100,696,781	\$ 100,696,781
Pay Back in Years on Revenue		-4.64	-6.19	-7.74	-9.29

The above table **doesn't** take into account the following factors and benefits.

- The actual timing and numbers of buildings that are likely to be strengthened & demolished.
- Loss of floor area through the strengthening process.
- Time delays due to tenants' lease arrangements and loss of rents.
- Increased rate, consent and building fees payable to the local Council.
- Jobs created within the construction sector and other services.
- Effects on the environment
- Risk Mitigation to the Government if another earthquake was to happen (this would be in the Billions of dollars). Global Impact?

History & Perception.

It should be noted that given past history since the 1965 code was introduced, public & owner perception has always been to wait until the last moment to strengthen their building/s for fear of the code (NBS %) being lifted again.

In implementing any policy the Government should look at ways to freeze any lifting of the engineering code for buildings to assist owners with time and some surety that the playing field isn't going to change on them(20-30 years would help change this perception).

Shortened Time frames.

The Wellington City Council is well advanced in assessing its building stock, but this cannot be said for other city's like Auckland, Whangarei & Hastings.

Any shortened time frame is likely to produce a huge bottleneck of buildings in breach of the new requirements and in effect destroy owner value considerably by not being compliant.

One way to help reduce the likely bottleneck would be shorten timeframes for schools, hospitals, and other public buildings, whilst extending time frames to say 30 years for churches and low usage buildings.

Risk Mitigation

Whilst the consultation process primarily deals with public perception and risk mitigation it does not deal with or explain how the Insurance and Banking Industries in turn deal with the risk mitigation in relation to each building.

Insurance

It is well known that insurance premiums have sky rocketed on un-reinforced masonry buildings and especially any building pre 1935. Since the earthquake some insurance premiums have increased ten fold which in itself destroys any value/equity the owner is likely to have in their building.

Owners of un-reinforced buildings and pre-1935 are facing earthquake re-insurance cover rates of 3% of the insurable amount and this doesn't include fire service levies and perils insurance. This in turn produces a total premium sometimes more than 50% of the buildings gross income!

This has a double edged sword affect as the fixed costs have increased, thus destroying any equity the owner may have had within the asset to draw on, to enable them to strengthen his/her building. Also once the building is strengthened there is no guarantee the insurance cost will come down again.

Banking & Finance

Since the Christchurch earthquakes any new lending or refinancing by the main trading banks requires the owners to strengthen their building to 67%NBS within a 2 year period. This is somewhat different to the current minimum standard requirement of >34%NBS within a 10-15 year time frame. This in itself is likely to slow down the funding of the strengthening process of any building under 67%NBS let alone those less than 34% NBS. The main trading banks should be looking at innovative ways to address this issue.

Rateable Notices

The Councils need to work with Quotable Value and investigate to have the quantified value of the earthquake strengthening on the rates notice. This in effect should reduce the overall RV, but once the building is strengthened then the strengthening value added to the improvements and the building is removed from the EQPB national register.

Incentives

If the Government is serious about addressing the above issues facing Pre-1976 buildings then it certainly needs to look at what incentives it can offer from a Tax perspective to entice owners to strengthen their buildings within the prescribed time frame. The NZHPT has done a lot of work in this area through various working papers.

Another way of helping EQPB & Heritage building owners would be the re-introduction of Transferable Development Rights (TDRs). This would allow buildings owners to add additional floors to make the building economic whilst costing the Government/ City Council very little.

Summary

- **Continue to improve public perception & risk mitigation.**
- **Implement minimum NBS as 34% into legislation**
- **Allow 5 years to complete National register of EQPB.**
- **Allow 10-15 years to bring <34% buildings up to standard.**
- **Shorter timeframes for Schools, Hospitals / Longer time frames for Churches.**
- **Tax incentive by allowing Expensing Earthquake strengthening in the year of completion.**
- **Or this tax benefit could be spread over a 5-10 year period for Tax smoothing purposes.**
- **Work with Trading banks to allow funding of strengthening for buildings <34% NBS either directly or in-conjunction with the Councils through the rates system.**
- **Indemnity Value Insurance on Pre-1976 Buildings - Banks acceptance across the board which could have an effect of lowering Insurance premiums over time.**

HPA acknowledges and endorses the substantive points made by Peter Dowell as quoted above.

Thank you for the opportunity to make a submission.

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President

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