



**Submission to the
Local Government and Environment Committee**

Building (Earthquake-Prone Buildings) Amendment Act

April 2014

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Committee Secretariat
Local Government and Environment
Parliament Buildings
Wellington

Dear Sir/Madam

NZPIF SUBMISSION ON THE BUILDING (EARTHQUAKE-PRONE BUILDINGS) AMENDMENT BILL

The Submitter

This document has been prepared by the New Zealand Property Investors' Federation (NZPIF) in response to a call for submissions on the Building (Earthquake-prone Buildings) Amendment Bill.

Established in 1983, the NZPIF has twenty affiliated local associations situated throughout New Zealand. It is the national body representing the interests of over 7,000 property investors on all residential rental property matters including proposed earthquake strengthening requirements.

Industry background

The residential rental property industry is a vital component of New Zealand's economy.

According to a recent ANZ Bank survey of property investors, it was estimated that there are over 300,000 landlords in New Zealand. There are no corporate or institutional residential landlords.

There are over 450,000 residential rental properties, housing over 600,000 tenants, and worth around \$150 billion.

Over 165,000 people derive income from rental property. 'Mum & dad' landlords are common, as 42% own just one rental property and 18% own 5 or more rental properties.

The majority of landlords are using their rental income business as a mechanism for saving for retirement and are professional and committed long-term players.

NZPIF Submission

In this submission the NZPIF is focused on the application of the Bill.

Support for the Bill

The NZPIF understands that the Bill has been prepared in response to the Christchurch earthquakes and we support the general aim which is to *“to improve the system for managing earthquake-prone buildings”*. However we question the extent of the Bill's requirements for remedial strengthening with regard to the lives that may be saved and the cost to all New Zealanders. We are also concerned that many residential buildings that are covered by the Bill are already safe but will require expensive examinations by engineers to confirm this.

Application

The Bill is primarily aimed at commercial buildings, however it does extend to multi-storey or multi-unit residential buildings with 2 or more stories AND 3 or more household units.

There are a large number of residential flats that will be covered by the Bill. Local Councils will identify them as potentially being earthquake prone, however it will be the owner who needs to employ seismic engineers to confirm whether the building is or isn't earthquake prone. We believe that many if not most of these properties will achieve the threshold and will therefore not be classed as earthquake prone.

The NZPIF is concerned that the proposed new legislative requirements will impose a considerable financial burden on many owners just to prove that their buildings are already compliant.

The NZPIF is also concerned that the proposed new legislative requirements will capture a large number of residential rental properties in areas that are not prone to earthquakes, potentially imposing a considerable and heavy regulatory and financial burden on individual owners for little real benefit.

The Federation has not seen any New Zealand evidence that a moderate earthquake would cause the widespread collapse of low-rise residential buildings of two or three stories.

Further, the Bill's blanket approach fails to take into consideration different seismic risk levels in localised parts of the country. For instance, the “risk” level in Christchurch is not the same for Auckland, Waikato or Northland.

It is the NZPIF's observation that, thankfully, there were no fatalities in a residential rental unit in the Christchurch earthquake. This includes residential properties that were over 3 stories high. The proposed wide application may be overstating the potential problem. The risk of the collapse of a low rise-residential building appears to be minimal.

The Bill's requirements have been examined by economic consultant Ian Harrison, which showed the NZ wide cost of the proposals would be 50 times the benefit received. In Auckland the cost was 1762 times the benefit.

The NZPIF believe that a significant cost saving could be made by reducing the requirements of the Bill in general and looking at regional areas where earthquake activity is highly unlikely to occur. As these areas are where a significant number of buildings affected by the Bill are located, the cost savings would be amplified.

Costs

The exact cost of any required earthquake strengthening work would be determined on a case-by-case basis and is dependent on the engineer's evaluation of the building.

As a guide the MBIE Regulatory Impact Statement has provided some indicative costs of strengthening buildings per square metre, to 34% of the new building standard, which are:

- Pre-1935 building: \$300 (\$30,000 for a 100sqm property)
- 1935-1976 buildings: \$416 (\$41,600 for a 100sqm property)

Accordingly, it is our view that these costs would be a significant burden for many small residential rental property owners.

Without getting the specified strengthening completed the affected building may not be insurable and it would not be in any condition to be sold or be tenatable.

These numbers do not take into account other costs such as inspections, reports and approvals.

A Member of our Canterbury Property Investors Association housed approximately 500 tenants in Christchurch at the time of the earthquakes. Most of these properties were in 2 or 3 stories. They reported that none of their tenants were injured in even a minor way during any of the earthquakes. All of their buildings, the majority of which were 2 or more stories, withstood the earthquakes well.

Despite this, 19 of their buildings had to be demolished, some of which housed 12 apartments. However none of these buildings did not withstand the quake in order to safely evacuate the tenants. Subsequent to the main earthquake, all 19 buildings lasted through all the subsequent earthquakes.

As an indication of costs, This landlord has just completed repairs to a wooden block of 12 apartments that have cost over \$1.4 million. There were tenants in the building right up to the 2 year process of repairing this commenced . In the time that this has taken place, loss of rents insurance cover ran out. It is an extremely dangerous financial situation for a landlord.

Insurance

Insurance policies require disclosure of information contained on the property LIM report regarding a building's earthquake-prone status. Insurers are likely to increase the cost of insurance for earthquake prone buildings.

It is likely that some individual owners may be forced to abandon their properties because strengthening requirements are too onerous and simply uneconomic.

Tenancies and other implications

This in turn could be a very serious concern for tenants in causing undue alarm and trigger a rental housing shortage and forcing higher rental prices which would hinder government policy objectives to ensure more residential rental accommodation is available and affordable.

Another concern is that affected owners could also potentially default on their loans and cause falling property values for all home owners across the country.

The reality is that current industry structure of small time mum and dad property investors providing residential rental accommodation could be destroyed under the weight of the incalculable costs of earthquake strengthening and its compliance requirements.

Clause by clause comment and Recommendations

Clause 23 New subpart 6A

133 AD Application of this subpart to residential buildings

This sub clause covers all non-residential buildings, and multi-unit, multi-storey apartment buildings that are two or more stories high AND have three or more household units.

The NZPIF recommends that the clause be amended enabling up to three storied buildings to be excluded from the definition as these structures are unlikely to fail.

A suggested new wording for the clause is:

"133AD Application of this subpart to residential buildings

- This subpart does not apply to a building that is used wholly or mainly for residential purposes, unless the building—
 - "(a) comprises 3 or more storeys; and
 - "(b) contains 3 or more household units.

133AS Owner may apply for exemption from requirement to carry out seismic work

The NZPIF supports clause 133AS which enables owners of some buildings to be able to apply for exemptions from the national timeframe for strengthening.

The clause is sensible and its intent could include recognition that the effect of small blocks of units, failing, are likely to be minimal.

Summary

The NZPIF supports the general aims of the Bill, but realises that we cannot safeguard ourselves from all of life's potential disasters. When looking at measures to safeguard the population we need to be practical and correctly analyse where limited funds are best spent.

It is our view that the application of the bill, as drafted, is too wide and could have large and unintended effects on the residential rental housing market which would have an impact on thousands of people. Many properties will be lost to tenants as they will be uneconomical to bring up to code.

The NZPIF would urge the Committee to apply a flexible approach to the application of the bill and amend it such that it recognises that small residential rental units are not a significant cause of concern and measures should minimise the impact on the vital rental housing industry.

Thank you for considering this submission.

The NZPIF is happy to provide the Committee with any further information it may require and wishes to be heard in person before the Local Government and Environment in support of this submission.

Yours sincerely.

A handwritten signature in blue ink that reads "Andrew King". The signature is written in a cursive, flowing style.

**Andrew King
Executive Officer
NZPIF**