

Property Matters: Seismic work put at \$100b

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5:30 AM Tuesday Nov 27, 2012

Seismic issues could hit the property sector harder than leaky building problems and repairs and strengthening could cost about \$100 billion.

Marcus Beveridge and Tina Hwang of Queen City Law presented a paper to a building and construction law conference saying the real estate investment sector was about to be hit by this issue.

"The leaky building saga is estimated to be worth \$15 billion and there have been contrary voices on how much the seismic issue is worth," the lawyers said of the PwC \$11 billion to \$22 billion estimate range.

"There have been contrary voices on how much the seismic issue is worth. One bank manager has advised that it is 10 times the leaky building issue while a construction industry leader has advised that although this issue is Ben Hur, it could not be worth \$100 billion.

"Leaky buildings had the option of targeted repairs in addition to a full repair. Will a full repair here be required? Would it be economically sustainable? There will be a greater debate over the economics," the lawyers said at the conference last Thursday.

They said a \$15 million fully tenanted Wellington building which would cost a further \$15 million to fix – but still be worth only \$15 million. The tenants had left because the building did not comply as a safe and healthy place but they were still paying rent because their lease had not ended.

"Owners who pour funds into their buildings will not be increasing the net floor area of the building and the valuation of the building is likely to remain at the status quo (if not below) even after significant capital has been added," the lawyers said.

Engaging a qualified engineer and consultant could cost from \$50,000 to \$250,000 before the owner even begins work on the building.

"Banks are the forefront of seismic issues as this ultimately affects the government and market valuation of the bank's security; ability of customers to make repayments and the potential mortgagee saleability of the security should the bank need to exercise this. A building in Wellington has dropped 80 per cent in value, decreasing from \$10 million to \$2 million because of the seismic issue and such a decrease will have tremendous impact on the owners and especially the bank.

"Commercial bank managers have advised that if a 'well to do' customer had one earthquake-prone building, the banks would be more inclined to assist, but would struggle if the customer had multiple buildings," they said.

But they are worried that the banks are not taking a proactive approach such as creating their own earthquake strengthening team, much like the leaky building specialist manager heading many banks in that issue.

The lawyers predict banks would require buildings to be brought up to seismic code and that this would drive the market.

"As different cities will have different risks, some banks may be more stringent in their requirements in particular cities like Christchurch or Wellington, but in any case many are now requiring up to 80 per



Christchurch lost 200 heritage buildings in the recent earthquakes. Photo / APN

cent of code for finance throughout the country," the lawyers said.

Takapuna-based building consultants Prendos said they were now providing seismic assessment and structural upgrade services for buildings.

On a big scale

- * Christchurch: had 300 heritage buildings, lost 200
 - * Auckland: 3000-4000 heritage buildings
 - * Wellington: 570 inner-city earthquake-prone buildings
- Source: Queen City Law
- * Earthquake strengthening predicted to cost \$100b.

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