

Briefing: Delivering a pragmatic and sustainable approach to resilient buildings

Introduction

This briefing sets out the problem, a pragmatic and sustainable approach to resilient buildings and the actions the Minister can take to make progress.

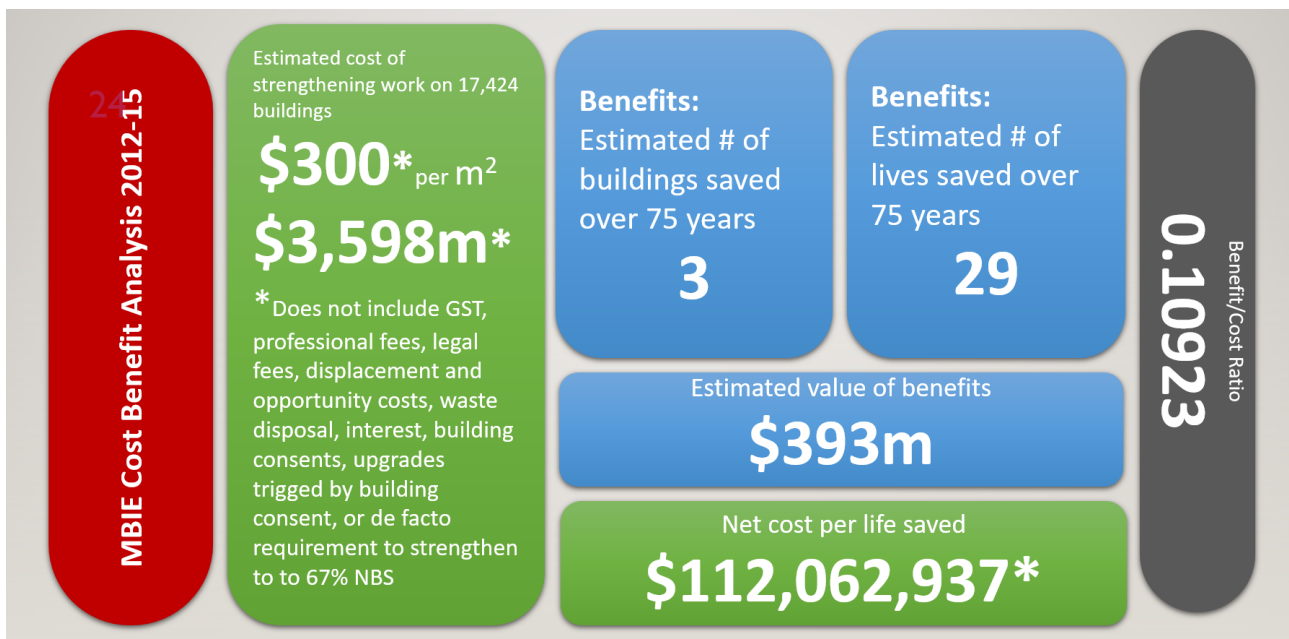
This briefing is based on research informed by the experiences of Wellington apartment owners. These experiences are likely to be experienced by apartment owners elsewhere, particularly in medium and high seismic risk zones.

The Problem: a negative cost-benefit analysis is imposed on New Zealand apartments owners

The Ministry of Business, Innovation and Employment (MBIE) commissioned a cost-benefit analysis (CBA) in 2012. The analysis looked at costs of strengthening earthquake-prone buildings under the proposed legislation.

MBIE concluded that costs of strengthening substantively outweighed the benefits of strengthening in terms of lives saved and buildings not demolished over 75 years.

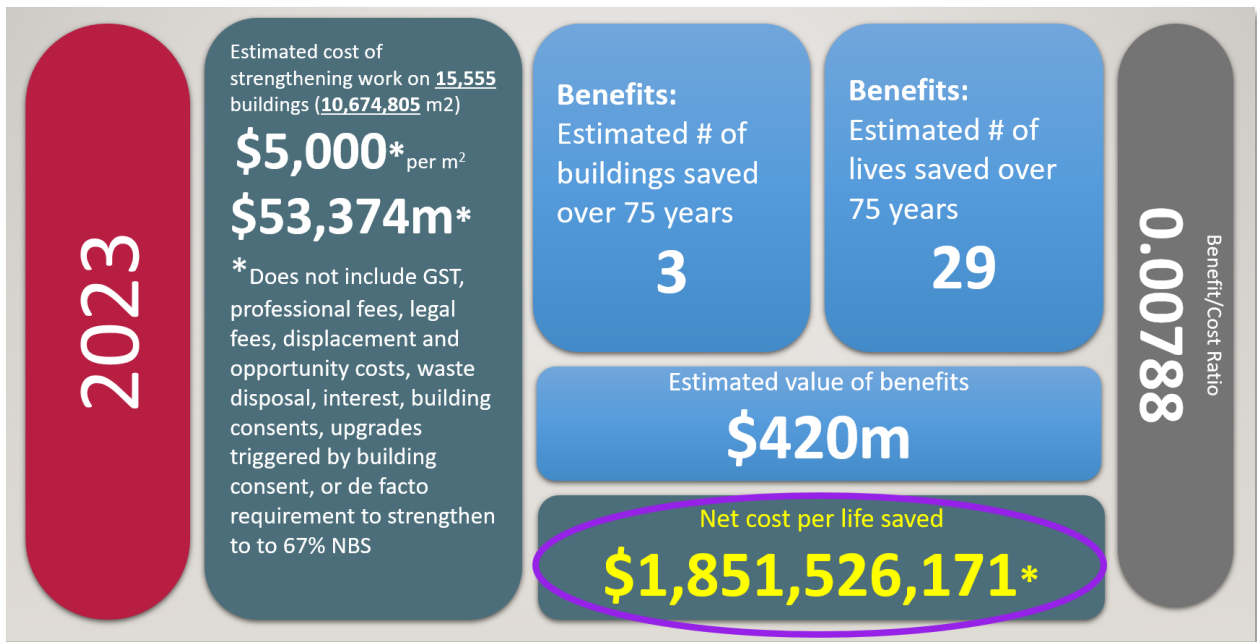
However, this conclusion was then ignored by decision-makers.



Meanwhile, using our policy expertise, the Inner City Wellington (ICW) collected data in 2020 that showed actual full costs of compliance were 10 times more (\$3,000 per m²) than those used in the CBA (\$300-\$416 per m²).¹ Using more recent data from strengthening costs in The Post over November and December, the compliance burden placed on apartment owners has significantly increased.

¹ Analysis completed by Hazel Kirkham, a member of ICW EQ-prone buildings working group. A working sheet to support this analysis is available.

Now, those engineers involved in establishing the earthquake-prone building system (EBS) are saying it may have gone overboard.



The Result: the impacts of compliance, specifically on private apartment owners are unreasonable, disproportionate, unjust and unaffordable

Apartment owners in multi-unit, multi-owner residential buildings of two or more levels and three or more households are **facing unreasonable, disproportionate, unjust and unaffordable compliance burdens to comply with legislation that is not fit for purpose.**

The **financial, housing and social impacts** of this legislation on apartment owners are:

- significant drop in apartment values once deemed earthquake-prone
- inability to sell apartments once deemed earthquake-prone, or at severely discounted prices, effectively trapping owners
- loss of savings and reduced financial and housing security
- if the costs and risks of strengthening are too high, apartments will be sold at discounted prices due to the costs and risks
- loss of capital in sale of apartments once buildings strengthened
- mental and physical health impacts on all owners, with additional pressures on those managing projects
- deferred maintenance to fund investigations and strengthening continues to place owners in financial difficulties
- difficulty planning other major maintenance projects due to focus on investigating or progressing strengthening projects.

There is no end point to the uncertainty created by this legislation for current and future apartment owners.

Apartment buildings are still being identified as earthquake-prone despite Wellington City Council having completed its assessment of the identified categories of buildings.

There continues to be variability in assessments of seismic ratings with substantive implications for owners.

Following the review of the National Seismic Hazard Model (NSHM), work is underway by Standards NZ to review the structure clause of the Building Code (NZS1170:5) but there is no timeframe for this to be completed. In the meantime, owners with deadlines and trying to progress strengthening projects and move on with their lives, have no certainty that a solution identified for their building to get to, say, 70%NBS, will not be downgraded once the review is completed. MBIE states that this revision only applies to new buildings, however, engineers are already saying that seismic ratings for existing buildings will decrease under a new standard.

Banks can require a potential purchaser of an apartment to provide an updated engineering report before agreeing to a mortgage. Such an assessment would use the updated standard.

This creates significant risks for all owners in the building: the seismic rating (% of the New Building Standard (NBS)) can either drop below 34%NBS (and the building is earthquake-prone) or can drop to a lower %NBS, decreasing the value of the apartments for all owners.

ICW supports the objectives developed in the 2023 MBIE framework for incorporating new knowledge into the earthquake-prone building system (EBS) and the intent of the framework. The current EBS must be assessed against these objectives before the framework can be used to assess future changes. The current system does not effectively target vulnerable buildings, is not proportionate and does not provide certainty.

Without resolving these issues, the viability of apartment buildings to address New Zealand's housing shortage is at risk.

[As Minister, you have the opportunity to deliver a pragmatic and sustainable approach to resilient buildings for New Zealand](#)

The cost-benefit analysis conclusions and impacts on apartment owners, along with media reports questioning the scale of the current EBS and impacts on owners and Wellington, along with other regions, necessitates an urgent review. New Zealand needs to be sure it is implementing the most cost-effective policy to achieve resilient buildings and manage seismic risk.

Overall goal: A sustainable approach to increasing building and housing seismic resilience over time, via the following actions:

- Extending the deadlines on issued notices by three years to take the pressure off owners in a high cost, highly uncertain environment
- Supporting owners already in the system to comply if owners opt to do so and
 - Continue the Residential Earthquake-prone Buildings Financial Assistance Scheme and Building Support Service Pilot
 - Take action to remove heritage listings that prevent owners from using demolition as an option to comply

- Suspending the authority for territorial authorities to issue further earthquake-prone building notices or take any enforcement action pending the outcomes of an urgent review
- Directing officials to urgently initiate a comprehensive review of the EBS to be completed by December 2024, including:
 - Assess the current EBS against the objectives set out in MBIE’s framework for incorporation new knowledge “Managing the earthquake-prone building system” (Aug 2023)
 - Commission an independent cost-benefit and impact analysis of the current policy, using full compliance costs, distinguishing the different owner groups (particularly apartment owners)
 - Commission an independent assessment of other comparable jurisdictions’² approach to managing seismic risk in the existing and new building stock to compare to the current EBS and to inform a pragmatic and sustainable solution
- Building a national consensus on a sensible regime for building resilient buildings and for strengthening our existing stock.
 - Introduce a building standard that provides for property resilience in new buildings to:
 - incorporate new knowledge into the building standard for new buildings on a more regular basis to increase building resilience over time
 - continue to reflect the seismic hazard and importance level models as per the current practice
 - enable buildings to be re-occupied following a major event reducing the relocation impacts on apartments (ie, households) (and businesses and public services)
 - Establish an earthquake-prone building system (EBS) that is targeted and proportionate for the identified life safety risks
 - Ensures a similar approach to how NZ assesses and lives with other risks
 - Informed by how other jurisdictions achieves resilient buildings over time and management of existing buildings
 - Provides certainty that buildings will not be continually required to upgrade
 - Encourage owners to proactively strengthen buildings as other home owners are able to without the threat of mandatory strengthening being imposed in the future.

This approach is focused on apartment buildings and their owners, but many of the components will apply other owners (eg, small commercial property owners). We can provide further information when needed on why these actions are proposed.

Steps the Minister can take to progress this urgent and important work

ICW expects that MBIE’s *Briefing to the Incoming Minister* will outline the scope and purpose of the MBIE Framework for incorporating new knowledge into the EBS, and that this framework will underpin MBIE’s advice on the future direction for building resilience.

As noted earlier, ICW supports the intent of this Framework, but considers that a review of the fundamental policy framework leading to the current EBS is an essential first step.

² For example, California, Washington and Japan

We recommend the Minister directs officials to:

1. Provide urgent advice on:
 - a. options to pause the issuing of further notices for earthquake-prone buildings pending the outcome of a review
 - b. extending the deadlines under issued notices
2. Draft the Terms of Reference with a detailed scope to trigger a review of the current EBS to start in 2024 and seek feedback on drafts from key stakeholders, including representatives for apartment owners
3. Identify and recommend independent experts to be involved in the review and the development of a new framework to provide assurance to decision-makers and stakeholders that alternative views on structural engineering, costs, benefits, impacts on owners and seismic risks are being incorporated into an evidence-based review.
4. Complete a detailed analysis of the earthquake-prone building policies in comparable jurisdictions on, but not limited to: strategy to achieve building resilience (e.g., life safety or property resilience, new and/or existing buildings), mandatory and voluntary components and how these impact on different groups of owners (home owners (i.e., standalone housing), apartment owners, government owners, small business owners and large commercial property owners), financial and advisory support structures for owner groups, and, in conjunction with the Treasury/EQC – equivalent agencies, how these policies integrate into lending/insurance policies
5. Implement an independently-reviewed framework for collecting full cost data on mandatory strengthening projects (including the investigation costs, construction costs and displacement costs) directly from affected owners (via territorial authorities and other networks) to inform an independent cost-benefit analysis
6. Require territorial authorities to collect data on the primary use of current earthquake-prone buildings (including the number of apartments in residential buildings) and update the Earthquake Prone Building Register to provide important context for the review³
7. Provide advice on how to streamline the development process for the revision of SNZ 1170.5 to enable this work to inform a review of the system and provide certainty for owners progressing projects.

Minister, you have the opportunity to finally fix this complex situation and lift the years of worry and uncertainty for this group of New Zealand home owners, who have worked hard to achieve their own homes and need certainty they can continue to afford to live in them.

We thank you in advance.

Who we are

ICW is a residents group for Wellington's inner city, which include public servants and business professionals with practical knowledge and experience of the public policy process and its implementation, and those who consult to the sector.

³ Wellington City Council has collated this data for its own purposes but is not required in the Register.

ICW, in liaison with affected owners, has advocated on behalf of apartment owners since our establishment in 2009 highlighting the impacts of the earthquake-prone buildings legislation on this group of homeowners with local and central government ministers, mayors, councillors, officials and officers.

This advice has been developed by current and previous owners of apartments in earthquake-prone buildings and buildings that are not earthquake-prone.

We can be contacted to provide further information to you or your officials.

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Note on update to graphic on page 2 *

The graphic has been updated to reflect the latest version provided by Hazel Kirkham after the original briefing was sent to Minister Penk.