

Seismic performance & building values

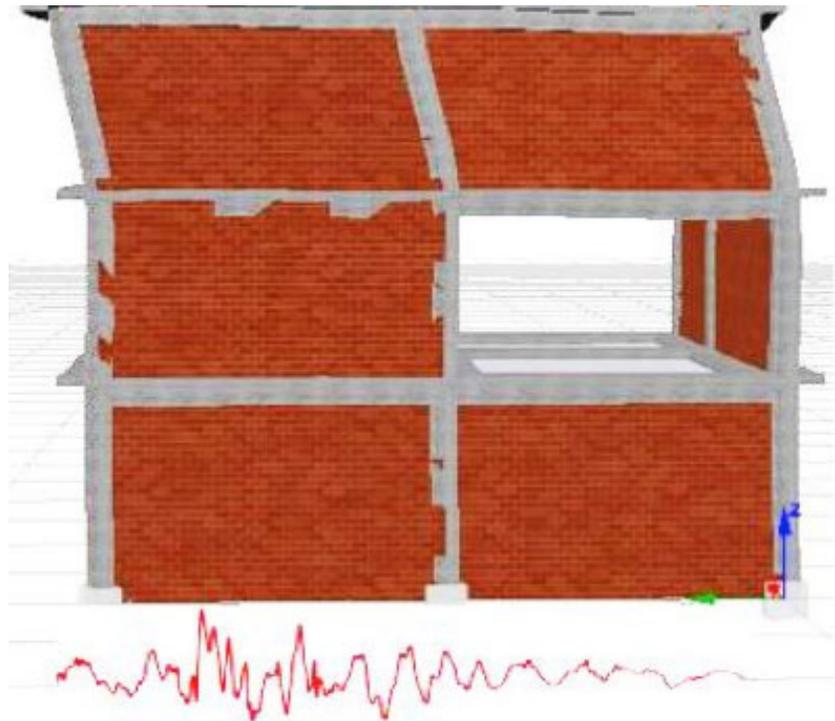
The Building Act 2004 repealed the Building Act 1991. Therefore, the requirements that commercial buildings (specifically non-residential, multi-unit and multi storey residential buildings) need to perform to a prescribed seismic strength have been in existence for nearly a decade.

Cantabrians and more recently Wellingtonians appear to have had the domination on earthquake issues especially with regard to a building's seismic performance.

However, the Government's recent roll out of the Building Act amendments concerning earthquake prone buildings in December 2013 has meant a building's seismic performance is now in the spotlight. The major stakeholder's such as future buyers, lenders, insurers and tenants are now scrutinising a building's seismic performance as it affects whether to buy, what to lend and what the insurance premiums should be.

A building's 'earthquake-prone' susceptibility is based on a score rating relative to the NBS and expressed as a percentage. This percentage reflects the ultimate limited space (ULS), this being the point at which significant structural damage will occur and the reliable strength will be exceeded and is based on a return period of 500 years or an annual probability of 0.2%. The current seismic resistance thresholds mean buildings fall into the following categories:

Below 34%	Earthquake Prone
34% - 66%	Moderate Risk
66% and above	Low Risk



Consequently, 'Earthquake-prone' is defined as a seismic resistance of less than 34% of the New Building Standard (NBS). NBS itself changes depending on your location in the country and the type of building. Therefore, as a commercial property owner the first critical step is to establish which threshold your building falls into.

Determining seismic performance has become important to stakeholders and tenants alike as it is seen as an indicator of occupant safety and relative risk with regard to lending and gaining the correct

insurance cover. Further more the issue is not going away with The Canterbury Earthquake's

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Royal Commission and the Ministry of Business, Innovation and Employment (MBIE) recently releasing several recommendations covering how earthquake-prone buildings are identified, assessed and managed. Two of the fundamental recommendations included:

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- All non-residential and multi-unit, multi-storey residential buildings be seismically assessed within five years of any policy and regulatory changes taking place. The information as to whether the building is above or below the threshold will then be made publicly available on a register.
- All quake-prone buildings be strengthened, or demolished, within 15 years of the changes taking effect (up to five years for local authorities to complete seismic capacity assessments, followed by 10 years for owners to strengthen or demolish buildings).

From a valuation perspective lending institutions are becoming more concerned with a building's seismic performance, their need to understand its NBS rating and its consequent impact on the property's value as they have the ability to structure funding to mitigate risk. Ultimately the more relevant information we can analyse means a more accurate assessment of value can be determined, such as: High end residential/lifestyle

- Exactly what steps the owner has taken to assess the category of their building
- If strengthening is required, what exactly needs to be done, how will it be done and at what cost
- Implications on cash flow – existing/future rental levels, inducements, current/pending vacancies, vacancies during strengthening works
- The ability to lease or sell the property
- Revision of leases specifically in relation to insurance and explicit to earthquake related issues such as early termination, maintaining the percentage rating and no reinstatement insurance.
- Does the capitalisation rate adequately reflect the risk

achieved and at what cost and whether is its practically achievable. In some cases it will be possible to achieve a higher percentage with minor additional works, but not all owners will be so lucky. Both owners and tenants will be affected by strengthening work. How long and what type of work is necessary could possibly affect the tenant's ability to remain in occupation, not to mention having an impact on surrounding properties and businesses.

Therefore, it is key for property owners to assess the seismic performance of their building to establish the relative risk(s) to be considered. Fundamentally the market has to continue to improve its knowledge as this is a real and permanent issue.

There are many financial ramifications; however, ultimately, making buildings safer is about saving lives, and we were reminded of this by Building and Construction Minister, Maurice Williamson when he said "We owe it to the 42 people who died outside of the PGC building and the CTV building from falling debris and unreinforced masonry, to get it right."

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