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Draft Long-term Plan
Wellington City Council
Policy and Reporting (COPO01)
PO Box 2199
WELLINGTON 6140

Dear Sir/Madam

WELLINGTON CITY COUNCIL DRAFT LONG TERM PLAN 2015-25

Deloitte welcomes the opportunity to submit on the Wellington City Council draft Long Term Plan for 2015-25 ("the LTP").

SUMMARY

Deloitte in Wellington

Deloitte is firmly invested in Wellington with the future of our local office totally intertwined with that of the city. We are unashamedly pro-growth for Wellington City, the wider Wellington region and New Zealand in general.

We are the largest professional services firm in the region (as a consequence of continuing to grow year on year). We currently have 34 local equity partners and c350 staff that serve the full range of local clients from individuals and small businesses through to the Capital's largest companies (including publically listed) and government agencies.

Our Wellington office is part of a fully integrated national business that also has offices in Auckland, Hamilton, Rotorua, Christchurch and Dunedin. Our national firm aggregates to Deloitte globally whose network comprises the largest professional services firm in the world.

In Wellington we provide the full ambit of professional services to many thousands of local clients. We do not have a national head office in the normal sense, but some of our local partners hold national leadership roles that include our CEO and the leaders of our national Corporate Finance, Forensics, Risk and Consulting business areas.

We believe that this context provides us with a unique lens through which to view and comment on the LTP being:

- We are a material local business
- Our business touches all facets of the Wellington market, and
- Our local partners still shape the future of their national firm

General view

Recognising our context, we believe that the LTP is a crucial step for Wellington. The decisions that will ultimately flow from the consultation process will set the direction for the city over the next decade. The LTP offers a choice between a "business as usual" programme, and a bolder plan that is recommended by the Council to "invest for growth;" with which we broadly concur.

We believe accelerating Wellington's growth is not only sensible for Wellington but also sensible from a national perspective. We believe that it is strategically appropriate for the economic activity of New Zealand to spread throughout New Zealand and not simply focussed on Auckland, further stretching its infrastructure and putting compounding pressure on its housing market; when Auckland is already a world class city.

As a consequence, we believe that it is crucial that the Wellington economy accelerates its growth from both a local and national perspective.

We also believe that under a continuation of the status quo Wellington will more likely underperform its potential and that the opportunities for businesses, employment, economic growth and prosperity will continue to been seen to exist primarily in Auckland and increasingly less so in Wellington. A bold and progressive plan to reverse this perspective / trend is needed.

The concept that Wellington must "invest for growth" and that the Council must be progressive in its thinking on what such investment might entail is therefore one that we, as large business with a strong presence in Wellington and a material investment in Wellington's future, fully support.

We commend the Council on recognising that Wellington's economy needs support and on thinking outside the square to develop the ideas expressed in the LTP to help reinvigorate growth in the city to more acceptable levels.

As we are not privy to the Council's analysis that resulted in its list of initiatives, this submission does not seek to comment on every aspect of the LTP; noting again that we are broadly supportive of the direction of travel proposed, and that appropriate action outside of business as usual is required to be taken.

Lens through which to view the LTP

We believe that the key lens through which the LTP initiatives should ultimately be focused / evaluated on centre on whether they enhance local economic activity and create jobs, including through:

- More actively selling Wellington as a destination for business activity, including by removing barriers for business to invest here.
- Providing easier access to the city for tourists, and more activities for them to undertake while here.
- Encouraging more "local tourism" by investing and advocating in the vibrancy of the city and available entertainment.
- Encouraging increased migration (including domestic migration), through the above factors, but also with an emphasis on Wellington's quality of life.

We believe that an increase in economic activity intertwines with a greater depth in the employment market, a positive impact on net migration and accelerated GDP growth; and that this is the cycle that Wellington needs to accelerate. It is therefore very important that the "invest for growth" projects achieve an economic return on investment that makes sense.

In our view the LTP projects that provide the greatest yield for the city should be seen as the greatest priority. We recommend that it would be beneficial for there to be further debate in this regard including further transparency added to the final LTP that explains why particular projects have been assessed as able to deliver sufficient economic returns over others.

We would also strongly encourage the Council to set itself some "stretch" targets by which it can measure success in supporting the city to grow in all aspects that are important to its citizens. These could include, amongst other things:

- Growing the number of jobs and/or levels of workforce participation.
- Growing the number of students and increasing the level of conversion of students to workforce participants – i.e. the retention rate for students in Wellington.
- Growing the number of household units and hence the rating base.
- Growing the level of inward investment of capital into Wellington.
- Growing measures of social progress such as educational achievement, key health indicators and water quality.

In our view, by having a transparent focus on measuring the key indicators that matter, attention will be focused on investing in those areas where the most impact can be achieved.

We recognise that the Council can only partially influence some of the desired outcomes – however in the context of the LTP it is those outcomes that matter, since otherwise the investment should be limited to maintaining the status quo levels of service.

INVESTING FOR GROWTH – GENERAL COMMENTS

We note that the Council is proposing to increase capital investment over the LTP period through the following mechanisms:

- By increasing debt,
- By increasing rates for existing ratepayers, but also through an expected uplift in the rating base of 1.2%,
- By achieving efficiencies in expenditure, and
- By recycling certain current assets.

We comment briefly on each of these below.

Debt

We have not carried out any detailed analysis of Wellington's balance sheet profile by comparison to other Councils although we note that the level of forecast indebtedness by 2020 of just under $500 million is only 2.8% of the forecast total level of indebtedness across all of New Zealand's councils which compares favourably to a population base somewhere around 4.5%-5%.

Other than noting this point, we are not in a position to comment on the appropriateness of the anticipated debt level in any detail.

Rates

No ratepayer like to see rates increase and we are no different. However, as this submission emphasises, we are comfortable with modest increases so long as the investment is made in things that matter.

In overall terms we believe that rates charged to residential households represent good value for the services delivered, when compared to other services with a strong infrastructure component (power, telecommunications and roads). However we caveat this comment with those that follow.

We also note that current ratepayers need not see increases in rates where the overall revenue can be grown through other means. These can include additional rating units through population growth or new commercial ratepayers (subject to additional revenue not being offset by additional costs), also through increases to other forms of revenues outside of rates, for example, rental income, or access to new forms of revenue.

Unlike central government which can expect to see a rise in tax revenue as the economy improves through increased GST revenues in particular, local government does not benefit from this form of "organic" revenue growth other than through additional rating units as noted above. Clearly it is also insulated from falls in this type of revenue too.

We encourage the Council to keep talking to central government to identify ways in which it can share in the tax revenue growth that occurs when the economy grows – we note mention of a "deal" with central government and support this direction of travel, working more collaboratively to support economic growth at both a local, regional and national level.

Efficiencies

We are aware that the Council is making efforts to realise efficiency savings through a focus on ICT spend in particular and also through improved analytics on broader infrastructure spend.

We strongly encourage Council to continue investing in decision-making frameworks which drive better value.

We believe that further significant savings could be achieved through smarter procurement.

We also note that while Council budgets to fund its depreciation charge, it is proposing to divert some of this funding away from renewals of existing assets and into investing to lift service levels and/or new assets. We accept that this may be due to over-investment in "renewals" type spend in prior years but it may also be due to a mismatch between accounting policies and the true asset amortisation profile. It would be useful to analyse this to determine whether a reduction in projected depreciation charges could also be justified.

Recycling assets

As a generalisation most government balance sheets are passive when compared to the private sector. Investments are made in new assets, with the consequential need for future maintenance and renewal, but very rarely are assets of any material value re-cycled to enable investment in assets which deliver greater overall net value to citizens.

Wellington City Council is the biggest single land-owner in the CBD and we therefore support moves to recycle some of these land-holdings to enable investment or upgrades to other assets.

In particular we are encouraged to see this proposed as a means to allow for earthquake strengthening since this is an area of expenditure where it is particularly hard to realise immediate tangible benefits – the benefits relate to risk reduction – but which unaddressed can act as an inhibitor to attracting economic activity to Wellington.

LTP INITIATIVES

As noted above, this submission does not seek to comment on every aspect of the LTP or necessarily have definitive views on each of the initiatives, however we comment below on some of the specific initiatives that in our view have clear merit to be progressed further in terms of analysis and final determination.

Wellington International Airport runway extension

We are broadly supportive of the Council providing grant funding for extending Wellington International Airport's runway if appropriate comfort can be obtained around the stated levels of economic benefit; which is materially impacted by an appropriate number of carriers taking the opportunity that an extended runway presents to schedule international flights to and from the capital.

Wellington cannot be a city of the world if international visitors – both tourists and businesses - cannot easily get here.

As well as assisting with growth in international visitor numbers, we suggest that the potential to increase the presence of international businesses in Wellington through increased connectively should not be underestimated. Without sufficient international travel connections Auckland will continue to be the preferred destination for international business adding even more pressure to its stretch infrastructure.

In making these comments we do want to emphasise that it is important that the terms of any such arrangement or like arrangements with the private sector are fair between the different parties and cannot be wealth transfers from the region to the private sector. The assumption is that the terms of any such arrangements are structured appropriately in this light.

Our comments are again also caveated by the assumption that international carriers would take the opportunity to schedule international flights through the capital if the runway was extended. We have seen a presentation that concludes that this would be the case and that the required economic benefits would also flow as a consequence. We are also aware of comments in the reverse. We are not in a position to comment on which view is most accurate. We would expect that concluding on this matter will be a material determinant of this issue.

Tech hub

It is proposed to establish a "tech hub" to help high-tech start-ups connect with funders, investors, and international speakers.

A great advantage of Wellington City is that it is compact and able to be navigated in minutes by the digital and tech companies already flourishing in the CBD and surrounds. If the industry is supportive of increasing this connectivity even further through the creation of a specific "hub," then it is appropriate for the Council to consider supporting one – noting that we understand that such hubs have been successful in supporting start-ups in large global cities.

We note however that even if this proposal does proceed, it is important that we still look to take full advantage of Wellington's compact geography between the businesses located in the inner-city, Victoria University, Massey University, the Wellington Institute of Technology, Whitireia and Callaghan Innovation (amongst others).

What can distinguish a "tech hub" in Wellington from such initiatives elsewhere on the globe is the strong links that can easily be formed between the businesses operating in that hub, and our educational providers and research institutes, let alone the proximity to central government. We can connect talented students, upcoming businesses and employers and research providers far easier than other cities. Wellington can and must take advantage of its size and ability to communicate to help foster start-up businesses and talented employees/students.

This links to our view that, in general, Wellington does not do enough to leverage off its high calibre educational institutions and we would like to see much greater emphasis on partnerships between these institutions and local employers – fostered by the Council – to encourage graduates to stay in Wellington and help grow the economy. This can only happen if the institutions train students in skills and qualifications that are in demand locally and/or students see the opportunities to stay in Wellington after they graduate and achieve their ambitions.

Industry enterprise zone

The LTP proposes exploring an enterprise zone for the screen production sector that would include simpler planning and rates processes.

We acknowledge the challenges faced by the screen production sector, driven by the reliance placed on one-off productions. We broadly agree that the industry is uniquely important to Wellington, and should be appropriately supported.

We would however like to see the Council consider broadening its proposition to consider simpler planning and rates processes beyond the screen production sector. The LTP needs to focus on more than supporting businesses that already have a presence in Wellington – it needs to be ambitious and focus on attracting marginal business activity. In light of this, we believe that Council should consider establishing an enterprise zone (or similar initiative) to attract and retain marginal activity to Wellington outside of solely the screen production sector. The development in and around Transmission Gully provides a unique platform to do so.

We also believe that Wellington cannot rely solely on the technology sector and the screen production industry for the growth in GDP that we need. The city needs to be attractive to all businesses and all industries. As noted above any airport extension should assist with this. But the Council should consider what else can be done. The concept of a "business park" is not new, and these have had success in other cities around the world – we suggest that serious consideration be given to whether such a concept should be introduced in Wellington; noting again that development in and around Transmission Gully providing a unique platform to do so.

A vibrant inner city – the need for earthquake strengthening

A number of the proposals are designed to help revitalise the inner-city. We acknowledge the importance of a vibrant inner-city, noting that aspects of the LTP could in some respects be seen as "business as usual" in the sense that there will always be the need for inner-city revitalisation, and noting that this can, if done correctly, contribute to the city's buzz and quality of life for ratepayers.

While it is important to revitalise the inner city with pedestrian areas and green spaces, we do not believe that this can be seen as a standalone project from the buildings that surround them. And, as is well known, many of these surrounding buildings are in need of significant earthquake strengthening works.

The LTP does not currently directly address the significant earthquake strengthening works that are required to be carried out in the city over the next decade, the very real concern that many building owners are unable to afford to undertake such works, and that some buildings may consequently fall into a dilapidated state and/or be required to be removed.

We acknowledge the LTP does propose a $1m annual spend to provide support for strengthening heritage buildings. However we would suggest that the Council must also consider a broader role to support property owners, not just those with heritage buildings. We would support Council investment to support earthquake strengthening works as we believe there is a viable and practical role for Council to play in helping building owners navigate the existing obstacles.

We attach as **Appendix One** further comment on where we see there to be current barriers to investment and would encourage the Council to consider how it could broaden its role to respond to these problems; recognising again the importance that any support is fair to all parties involved inparticular the Council and not simply a wealth transfer from the council to certain property owners.

Transport

Initiative six in the LTP is *"creating liveable communities and accommodating growth."* One of the key aspects of this is undertaking major roading improvements as and when required, which again can be seen as "business as usual" as it is a core part of what Council does.

A nuance that we believe should have greater prominence is that given Transmission Gully and related projects, Wellington's transport links need to reflect that not everyone that works in Wellington will actually live in Wellington. While job creation can and must occur in the city, we have to accept that a material proportion of people that take those jobs and enjoy the city's lifestyle and attractions will not actually live in the city. They will travel to the city from areas managed by neighbouring councils, and many of them will make this journey in cars.

We therefore believe that increasingly there is the need for greater regional co-ordination of transport investment.

Currently Greater Wellington Regional Council coordinates this with respect to public transport. However there is no formal equivalent with respect to investment in both local roads and state highways.

We therefore believe that the council should consider its position and discuss with neighbouring councils what synergies could be achieved through great coordination on roading investment. We have been pleased to see the recent emergence of Wellington Water and would be keen to support the nine Wellington regional councils to work with NZTA to create a similar model for transport investment, renewals and maintenance.

Transport is a system, similar in many respects to water, with long asset life-cycles and very significant investment costs. It is also fundamental infrastructure to support both economic performance and high quality life for citizens and visitors. It is absolutely vital in our view that a co-ordinated and integrated approach is taken to transport investment across the region to optimise the value derived from the expenditure, and to support regional spatial planning.

In addition, we believe that there will be an increasing focus over the next 20-30 years on the use of demand management tools, including expanding road pricing mechanisms from the current RUC/petrol tax instruments as GPS units become increasingly commonplace and integrated into all vehicles. When this happens, it will be essential that transport demand is managed regionally not authority to authority.

Convention centre and indoor arena

In order to be a world class city Wellington would clearly benefit from both an indoor arena and a convention centre.

Under the status quo Wellington is at risk of missing out the economic activity that would accompany events at an indoor arena and an increase in the number and size of conferences. The convention centre in particular would be valuable from a business perspective, and we support the council continuing to investigate this initiative with a view to supporting it in an appropriate way that is both fair to it and its stakeholders, as well as to the other private sector participants that would be involved.

Supporting our natural Capital

Wellington's quality of life is an advantage that we should seek to capitalise on in a more overt way.

We have ease of access to places such as the Zoo, Zealandia, and Te Papa. Also unprecedented access to immediately proximate walking, running and cycling tracts and numerous coastlines. We have clear and clean water in a safe harbour. And we have our beaches including at Oriental and Scorching Bay.

The focus for Wellington tourism is on our vibrant inner city, our boutiques, and our arts.

We believe that a greater emphasis can also be put on our natural capital, not only as an attraction for tourists, but in seeking to attract New Zealander's to live in Wellington and enjoy its surrounds.

OTHER COMMENTS ON THE LTP

We set out below our comments on other matters that we believe should be considered in the context of the LTP.

Relationship with central government and Auckland

Council should view Wellington's proximity to central government as an advantage. The way that the current LTP is phrased, that Wellington has a choice to "rely on government jobs" or not (like this is a negative), is not in our view the best way to consider Wellington's relationship with central government. The public sector is, and will remain, a pillar upon the city is built including from an employment perspective. It is a truly unique differentiator for the city.

In our view Council should be considering its relationship with central government more broadly, and how to capitalise on this – both to increase employment in the region, and to support infrastructure projects and tourism.

We also strongly believe that central government needs to be encouraged to be a greater stakeholder in Wellington's success than what appears is currently the case.

In a similar light, so should Auckland, as the major New Zealand centres should look to collaborate where it makes sense for the benefit of the country as a whole and their individual constituents. This is particularly the case with Auckland as it has now already become a world class city.

Partnering with the private sector

We are very supportive of Council partnering with the private sector on infrastructure projects, and exploring opportunities in this regard for projects such as the airport runway extension, convention centre and indoor arena.

Public Private Partnerships are becoming more common in New Zealand, and can provide significant synergies to large infrastructure projects - including being used successfully in the context of Transmission Gully.

We would like to reinforce to Council that it is entirely appropriate to consider such a partnership in the local government context which at one level is no more than securing third party funding for such projects.

We would also like to see Council partner with the private sector to provide social housing, given the significance of the investment ($107m over the next 10 years) that we note is more than the planned spend on the water network and storm water combined.

This is an area where we believe Council should consider aligning with the direction that is being set by central government. For example, we would recommend that Council develop a proposal to work with Housing New Zealand, and potentially the not for profit sector, to provide a catalyst for investment in affordable housing supply, and creating a new ownership vehicle for Council's housing stock – this is simply a future liability that Council would benefit from having removed from its books.

The existing depth of the Wellington market

While it is accepted that Wellington's growth needs to be accelerated, particularly when regard is had to Auckland and also Christchurch, what is often lost sight of is the foundation that the Council has to work with and also perspectives on the data. Specifically:

- The data used in certain cases is historic and provides a skewed lens when looking into the future. As an example, Wellington's relatively slow economic growth in the March 2014 year reflected the fact that industries that increased strongly such as agriculture nationwide have a relatively small presence in the region.
- Notwithstanding the fact that Wellington's economic growth was slower than desired, the figures were still high relative to historic averages. Adjusting for population, they were better still. Due to different rates of population growth, Wellington's GDP per capita grew faster than that in Auckland.
- Wellington's GDP per capita remained the second highest in the country (behind Taranaki).
- Wellington remains New Zealand's second largest regional economy.

Related to this last point, Wellington is the home of central government and many of its agencies, a large number of material SOEs and publically listed companies and a burgeoning tech centre. It has a material foundation to build from.

Global examples

Relevant also are the number of global examples that seemingly exist that evidence how regions like Wellington can prosper notwithstanding that they are not the commercial capitals of their countries.

While they are alluded to in the LTP, we believe that the Council has a role to increase the transparency and debate around like success stories as a means of validating its own initiatives and aspirations.

THE IMPORTANCE OF CORE COUNCIL ACTIVITY

For completeness, we also wish to emphasise the importance of Council excelling in providing the core services that are fundamental to the city's operation. This is always the first priority.

Recognising that our city it built around the harbour, we believe that maintaining and improving storm water and sewage infrastructure is critical.

The harbour is one of Wellington's greatest features, and its health should not be put at risk in the event of heavy rainfall. Under the LTP core Council services will be maintained in line with current levels; we question whether there may be a need for increased funding directed towards improvement of some infrastructure, to protect the city's natural capital. [1]

Clearly we are not in a position to comment in detail on this point, but believe that the Council continues to carefully monitor the environmental footprint of the city and the health of the harbour, and take steps if required. We note that the LTP proposes the implementation of a real-time storm water monitoring system, and we are supportive of this for the reasons noted above.

CONCLUDING COMMENTS

Wellington is an exceptional city, and its residents are fortunate to enjoy a comparably high quality of life, supported by the city's natural capital. However this quality of life is inextricably linked to economic activity and associated GDP - and it is clear that Wellington is underperforming in this respect relative to its potential.

The concept that Wellington must "invest for growth", and reverse this trend of underperformance, is therefore one that we fully support. The status quo is not an option, and the themes expressed in the LTP are ones that were are largely supportive of.

We trust that you have found our comments on the draft LTP helpful, including our perspective on certain issues that we believe are deserving of a greater focus. We would welcome the opportunity to discuss our submission further.

Yours faithfully
DELOITTE

Thomas Pippos
Chief Executive

Linda Meade
Partner, Corporate Finance

[1] Acknowledging the plan includes $1.8b for access to green spaces, biodiversity, management of water and wastewater.

APPENDIX ONE – EARTHQUAKE STRENGTHENING ISSUES (COMMENTARY ON OUR UNDERSTANDING OF THE ISSUES)

Issue 1: Definition of Earthquake Prone

In our observation there does not appear to be a commonly held understanding of the definition of the New Building Standard strength level ("NBS level") of buildings. As at 30 October 2014, Wellington City Council had assessed a total 5260 buildings. IEP assessments are not meant to provide an accurate picture of the structural health of a building; therefore owners of earthquake prone buildings must have their new building standard (NBS) strength assessed. This is a more thorough evaluation conducted at owners` expense, which provides further detail on how to strengthen the given structure.

Anecdotally we understand that there have been a number of cases where different engineers came to varying conclusions about the same building`s strength. This may be one reason why a survey conducted by Wellington City Council found 73% of heritage owner respondents unsure of the NBS level of their buildings.

In addition, uncertainty around regulatory changes affecting the definition of, or threshold for, earthquake prone buildings seems to be as a reason why building are deferring both strengthening and commissioning strength assessments.

Potential responses: provide support to building owners commissioning strength assessments, and lobby Government to clarify the regulated definition of NBS. At a more detailed level the Council could co-ordinate free workshops with engineers to equip owners with knowledge on strengthening options. We understand Dunedin City Council does this already.

Issue 2: Information Asymmetry

Knowledge of insurance premiums, strengthening costs and consenting procedures are all areas where some owners find it hard to access and understand information. Unsurprisingly this would seem to a more wide-spread problem amongst smaller scale building owners and body corporates. For example, we understand that a common misunderstanding is that resource consents are required for all works on heritage buildings while in reality they are only needed in the case of façade alterations. We are aware of a case where the planned work for a body corporate with a heritage building was brought to halt due to misinterpretations as to how Heritage New Zealand grants or vetos consents.

Potential response: Wellington City Council is well placed to provide a case management approach or services to facilitate early-stage joint discussions amongst consenting authorities, heritage advocates and owners proved to materially assist participants. We understand that Wellington City Council already provides some pro-bono consultation services, however awareness of the availability of such services appears to be limited.

Issue 3: Financial Constraints

The primary constraint in the heritage remediation process is the tremendous cost of strengthening. This is exacerbated by limited access to capital from both public and private sources. According to a council survey, 50% of heritage owner respondents had investigation and reporting costs in excess of $30,000. Roughly 80% of this group had costs in excess of $60,000, with some reaching up to as much as $200,000.

We are aware of a building where reporting and assessment costs were around $150,000. The survey also noted that only 25% of buildings had estimated strengthening costs below $300,000 dollars. Another survey by the Inner City Residents Association indicated that 40% of buildings operated by body corporates had estimated strengthening costs between $300,000 and $400,000.

Wellington City Council provides financial support with an annual fund of proposed at $1,000,000 in the LTP for the purpose of subsidising remediation efforts. The council also offers rates remission as well as consent fee reimbursements.

Since heritage preservation is a shared objective, particularly in combination with public safety, many argue that its costs should be shared. However it is clear that public funding will always be constrained. Unfortunately the availability of funds from private sources such as banks is likewise very constrained.

Anecdotally it also appears that even in the best of circumstances, such as sole ownership and stable financial backing, funding strengthening via banks is uncommon. It is rarer still once owners are part a body corporate, which introduces the added hurdles of the Unit Titles Act.

A survey by the Inner City Residents Association shows that only 7% of owners would consider the idea of turning to banks for a special purpose loan, with 34% planning to undertake strengthening from savings. The remainder are equally split between those choosing increased mortgages and those who are undecided.

We understand that banks refrain from lending because of high loan to value ratios as well as the inherent risks of these earthquake prone buildings. We also note the difficulties caused by a lack of insurance coverage for buildings where owners are financially healthy but chose to refrain from paying high insurance premiums. Our research showed that the absence of affordable insurance is the main barrier preventing owners from turning to banks.

Building owners told us that insurance premiums rose steeply after the Canterbury earthquakes, and while they have now decreased they still remain higher than before. Along similar lines, building owners reported that getting information from insurance providers on what drives premiums has been difficult. Property development companies said that such intractability on the part of insurance providers necessitates them to self-finance and commission reports, which in turn can be passed on to providers as an argument against a high premium. This is an option that is out of reach for most of the struggling owners.

In theory, where the potential return on investment is high enough, capital should be available from non-bank sources. The issue here would therefore appear to be two-fold: lack of insurance is constraining access to cheaper finance; while rates of return are not high enough to encourage investment of private capital (refer further discussion below).

Potential response: One option the Council may wish to consider is facilitation of peer-to-peer lending to enable current building owners access to non-traditional sources of capital. This is an emerging marketplace and is unlikely to provide a “quick fix” for many building owners – however for smaller scale investments it may have some potential merit.

Issue 4: Return on Investment

Our analysis has shown that earthquake prone residential buildings and their apartments are receiving similar rents to their non-earthquake prone counterparts suggesting that tenants do not appear to ascribe a risk factor to justify discounts. Furthermore undertake strengthening work often means the temporary eviction of tenants. On the other hand a Telfer Young report commissioned by Wellington City Council found the sale price for a 71 sqm earthquake prone apartment on Cuba Street to be at an average discount of 30% to similarly sized apartments with no seismic deficiency suggesting that over the longer run investing in strengthening should be economically motivated.

The commercial market appears to be more sensitive to earthquake prone units; with units less than 67% NBS level already struggling to attract tenants. At the same time, it appears that building owners are unwilling to sell at a level of discount which makes it profitable for property developers with access to private capital to invest in strengthening.

The paradox appears to be that many current building owners, particularly heritage building owners, do not have access to the capital to undertake strengthening works – notwithstanding difficulty in attracting tenants – but at the same time appear to be unwilling to sell at a price which is attractive to developers with access to capital.

Part of the issue may be that the cost of like-for-like strengthening and reinstatement cannot be rationalised through rental income increases, particularly for buildings with smaller footprints in non-prime locations. While heritage buildings do have some additional requirements we understand that this is not the primary contributor to cost (recognising that Council must carefully weigh the benefits of strengthening to the loss of heritage integrity and authenticity when processing consent applications) – more likely it is the resource intensive nature of like-for-like strengthening, which are in fact comparable to reinstatement costs.

Potential response: The problem described above is a market failure issue and hence not amenable to Council intervention. Over the longer term, if the Council is successful in its economic growth targets, demand for strengthened buildings will outstrip supply making the cost of investment more economically attractive.