16012 - Quantifying the economic impact of New Zealand’s earthquake-prone building policy on commercial property markets

The Canterbury earthquakes caused significant disruption and destruction of commercial premises, with the effects of the earthquakes having spread nationally and seismic risk having become a significant issue for property owners. It has been estimated that there are as many as 25,000 earthquake-prone (EQP) buildings nationwide. Draft legislation related to EQP buildings requires that such buildings are either strengthened or faced with the prospect of being demolished. Heightened public awareness of safety issues in EQP buildings has affected tenancies, leaving the property owners’ rental income in jeopardy. As commercial building valuations are typically based on their earning capacity, values of some affected buildings have decreased dramatically. Escalating the situation is the fact that unlike the residential sector, over two-thirds of commercial property stock is owned by private investors who rely on rental income for servicing their debt, making them vulnerable to changes in the economy and property values.

The aim of this proposed project is to measure the economic impact of the impending EQP building policy on the commercial property market by (1) providing an empirical investigation of how previous EQP designation has influenced building value and (2) by using empirical data to reveal the timing and cost of implementing seismic retrofits to overcome past EQP designation. The research also considers the more pronounced economic repercussions that the impending policies are likely to have on older character buildings. The findings of this research will help inform policy development and risk mitigating decisions of property industry stakeholders.