

An exodus to turn around

The first of a two-part series on the Christchurch CBD.

THE GOVERNMENT seemed to deliver some good news for Christchurch on Tuesday. It slashed its share of the estimated cost of rebuilding the city from \$15 billion to \$8.5b.

So the earthquakes weren't as damaging as first thought?

That's not correct, property and insurance companies say. Each day they learn more about the scale of the devastation. Each day their costs escalate. They are beginning to worry about who will finance the rebuild of the city, particularly the central business district.

The government might be right about its direct costs for the likes of infrastructure. But the private sector has to come up with almost all of the capital to repair and build anew.

The property sector is wrestling with enormous unknowns. Who will come back into the CBD for work, shopping, recreation and living? What sort of buildings will they want? How rigorous will earthquake standards be? How high will the council let them build? How much will building costs rise? What rent will they get?

Fundamentally, how can they make reinvestment in the CBD pay? Insurance payouts will help. But nobody believes they will cover anywhere near the full costs. The CBD needs to attract a lot of new capital.

To do so, the people of the city, their council and government need to conceive of big, bold new purposes for the CBD. They need to think, agree and act fast and together.

Above all, they need to begin very soon. If they don't, the city will dissipate to its suburbs and surrounding commuter towns.

So, this column examines present challenges, and next week's will look at future opportunities.

The starting point is a dose of reality. Christchurch's CBD had some beautiful buildings (old and newer), some good businesses and some attractive elements of work and lifestyle.

But it was struggling



Seize the day: Turning the reality into something like this will take fast agreement and action.

Photo: The Press (inset); illustration: Rachel Ryan of Nextspace

economically. Some business activities were being sucked out to Auckland; retailers were losing out to suburban malls; manufacturing was past its hey-day; and services, particularly public sector ones, hobbled by financial constraints.

Consequently, the CBD had a lot of old, poor-quality, under-used or empty buildings.

You could certainly party long and hard in the CBD. But could you build a big, prosperous business there? To be blunt, the CBD was losing its identity and purpose.

Then the earthquakes hit. September's didn't seem too bad. Rebuilding was a big task but doable.

Nonetheless, the exodus of companies to the suburbs began. New business parks such as Show Place and Hazeldean in Addington began to fill up fast.

February's earthquake was so massive it destroyed hopes of repairing the CBD. Now the enormous task is reinvention and building anew. The disruption is so great that many more companies have had to relocate.

There were some 6100 businesses in the wider CBD, defined by the four avenues. Of those, some 50% were in the service sector, which made it easy for many of them to move.

The new suburban business parks are full and additional

temporary ones are popping up.

But how many of these businesses will come back to the CBD? Certainly some will miss the convenience of central city meetings. Others, though, will settle into their attractive new suburban locations. Property developers will find it a lot easier and cheaper to build more offices in the suburbs.

The loss of CBD buildings is already large. But as access to buildings improves and more is known about them, the number found to be more expensive or uneconomic to repair will keep rising, say property owners, developers, engineering consultants and insurers interviewed for this column.

Every building in the CBD will have its unique set of circumstances, with the exact nature of its insurance cover playing a critical role in what happens to it. Here are some broad hypothetical examples:

▶ In some cases an owner will rebuild a destroyed property. If it has extensive cover its insurer will pay for a new building to new earthquake standards, and costs such as rental losses on the old building. Even so, virtually every owner will still have to make some new investment.

▶ If the building is partially destroyed, the insurer will pay for restoring the damaged part to new

earthquake standards. But the owner has to meet the cost of bringing the rest up to the codes, presenting a substantial new investment.

▶ If the owner doesn't want to rebuild, the insurer will pay an indemnity. But this sum will be based on the pre-earthquake value of the building, which will be much less than the replacement value. Many old buildings were insured on an indemnity-only basis.

▶ Some owners will choose not to reinvest in the CBD, or even elsewhere in the city. These could be investors from overseas or elsewhere in New Zealand who see clearer, more certain opportunities elsewhere; and they could include under-insured locals who don't have the money or the appetite to reinvest.

▶ Owners seeking to rebuild on their existing sites or on new ones face a very different business model compared with before the earthquake. Costs will be higher because of stricter codes and severe capacity constraints in the construction sector; few tenants will want to be higher than the third or fourth floor, property owners and consultants say; and the council might restrict heights or density of low-rise buildings.

These factors will sharply reduce the yields on sites, and overall land values in the CBD will fall, the property sector believes.

Thus there is a risk of capital flight, or at least a failure to attract sufficient new capital to rebuild the CBD. Only bold, rapid action will create the momentum required to do so.

Time is running out. Paymark, which handles 75% of the nation's eftpos traffic, said the value of its Canterbury transactions was down only 3.1% in the week ended March 27 from a year earlier. In terms of trade, Christchurch is already learning to live without its CBD.

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Mike Stenhouse,
Sheffield Director

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