



Report by Opus Central Laboratories

Implications of December 2007 earthquake for commercial property owners in Gisborne CBD:

**Summary report of survey results for the *Heart of Gisborne*
town centre programme**

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Executive summary

Following the December 2007 earthquake off the coast of Gisborne, Opus Central Laboratories conducted two surveys of local businesses, seeking to investigate the impacts of the earthquake. One of these surveys, conducted in March 2008, focussed on the owners of commercial property in Gisborne's CBD and was undertaken with the support of the *Heart of Gisborne* town centre programme. The purpose of this survey was to examine the negative perceptions of heritage buildings and the risks of investing in the local property market, which were two particular sources of concern raised in scoping discussions with members of Gisborne's local business community. Restoring the historic character of the built environment is frequently a key element of town and city centre revitalisation strategies, and the impression that heritage buildings might be an undesirable investment option after the earthquake could have serious implications for Gisborne and other New Zealand cities facing similar circumstances in the future. On this basis, it was decided that this would be an area of wider interest and worthy of a research study.

This survey identified that owners of commercial property in Gisborne generally have little perception of the advantages of investing in a heritage area, and that depending on the local economic strategies in place, it might be appropriate to raise awareness of the potential benefits arising from built heritage. It was also found that insurance policies will not provide full cover for the cost of repairs to some buildings, and a number of owners will need to finance the shortfall through drawing on cash reserves or borrowing. In a worsening economic climate, this may have implications for these businesses.

Only three months after the earthquake, the majority of property owners appeared committed to their investment in Gisborne, which is reassuring as this had been a major cause for concern. Only a handful of respondents were considering selling their properties. However it should be noted that about a quarter of business people believed that there is a higher level of risk associated with owning or renting property in the CBD. This may have repercussions for the local economy if many of this group seek to withdraw from the Gisborne property market. The heightened perception of risk may be temporary though, and a follow-up survey in March 2009 is intended to identify any change in the level of perceived risk of investing in the local property market a year after the initial survey was conducted.

1 Background to the survey

On 20 December 2007 a magnitude 6.8 earthquake occurred off the coast of Gisborne. Estimates of payouts for the earthquake stand around \$55 million (Brennan 2008; ICNZ 2008). Although moderate in strength, this was New Zealand's most damaging earthquake since the 1987 Edgecumbe earthquake and the first major earthquake to affect an urban settlement since the Napier earthquake in 1931, as Edgecumbe was in a predominantly rural area. The 2007 earthquake caused a significant amount of damage in Gisborne's CBD, resulting in several partially collapsed buildings.

The Gisborne earthquake presented Opus Central Laboratories with the opportunity to learn more about the impacts and recovery process following an urban earthquake event,

forming part of its *Natural Physical Hazards* programme of research funded by the Foundation for Research, Science and Technology. As part of the scoping exercise for a large-scale survey of businesses located in the Gisborne region, investigating the impacts of the earthquake (Powell 2008), it became clear that there were specific issues around the heritage nature of many of the buildings in Gisborne's CBD and the genuine concern that some owners of commercial property in the city might wish to divest of their investments due to the heightened perception of risk of owning property in that location. The potential consequences of these issues were that the city could lose both businesses and investors, resulting in a decline in local economic activity. Opus decided that it would be worthwhile undertaking a smaller second survey, focusing on commercial property owners in the city's centre, which would investigate these issues in particular.

A survey was developed in consultation with the manager of the *Heart of Gisborne* town centre programme, Kerry Donovan. Using data supplied by the *Heart of Gisborne*, surveys were sent to all owners of commercial property in Gisborne's CBD in March 2008. Of the 188 surveys posted, 61 were returned. One survey was returned largely incomplete, leaving 60 surveys as useable, and giving a response rate of 32%. This is a respectable response rate when compared to similar micro-level studies that achieved about 8% (Knoben and Oerlemans 2008).

2 Findings

2.1 Information about respondents and their properties

In the first part of the survey, respondents were asked some general questions about their property portfolio, for example how many buildings they owned, the age of the buildings and the length of ownership. Respondents to the survey owned a total of 95 buildings in the CBD. The majority of buildings had been owned for more than 10 years, accounting for 60% of all buildings (see Table 1).

Table 1: Length of ownership

<i>Length of ownership</i>		
5 or less years	19	20%
6-10 years	15	16%
11-25 years	38	40%
26-50 years	14	15%
51 or more years	5	5%
Not known	4	4%

Based on the information provided by respondents, the average age of the buildings was 57.0 years. Very few buildings were less than 10 years old. More than two-thirds of buildings were between 26-100 years old, and four were believed to be more than 100 years old (see Table 2). There appears to be a disparity between the age of the buildings owned and the perception of heritage. Property owners were asked if they owned a

heritage building, to state if they had undertaken any restoration or renovation work to enhance its heritage character. It was anticipated that as 28 buildings were more than 75 years old, that owners of these buildings would specify that they had or had not undertaken restoration work. Yet 39% of owners of buildings that fell into this category answered this question, with the remaining 61% stating that this question was not relevant as they did not own a heritage building. This suggests that the age of the building does not necessarily signify that it has heritage status in the eyes of its owner. Possible explanations for this are that: earlier renovations and modifications to the original fabrics of buildings have removed heritage features and therefore diminished their heritage character, or that the buildings were not listed as a heritage building on the Register of Historic Places compiled by the New Zealand Historic Places Trust.

Table 2: Age of buildings

<i>Age of building</i>		
10 or less years	2	2%
11-25 years	14	15%
26-50 years	23	24%
51-75 years	20	21%
76-100 years	24	25%
101 or more years	4	4%
Not given	8	8%

Of the 60 people who participated in this survey, 43 (72%) of respondents own commercial property in Gisborne CBD only. A small number of respondents (9, 15%) own commercial property in other parts of Gisborne as well as property in the CBD. Slightly more people (11, 18%) own commercial property in places outside Gisborne in addition to property inside the CBD.

Two main reasons were given for owning commercial property. Firstly, 27 (45%) of respondents indicated it was to provide them with premises for their business. A very similar number (26, 43%) stated that they owned the property for investment purposes. Six respondents claimed that they owned commercial property for both of these reasons. When the answers were analysed further, 8 (13%) said that as owner-occupiers owning commercial property gave them security. Six (10%) respondents suggested that they had bought the property to provide them with a retirement income.

2.2 Perceptions of heritage buildings

Respondents were asked whether they believed there was any advantage to investing in a place that contained many heritage buildings like Gisborne's CBD. Two-thirds of respondents replied in the negative, and only 5 (8%) responded positively to this question.

The survey asked respondents whether they thought that heritage buildings in Gisborne CBD were more or less expensive to buy and maintain than more modern buildings of a

similar size in the CBD. The most frequently given answer was that the respondent did not know (26, 43%). 19 (32%) believed that heritage buildings would be more expensive than more modern buildings, whilst two people disagreed, suggesting that modern buildings would be more expensive than heritage buildings. Eight respondents (13%) thought that there would be no difference in cost.

As noted previously, property owners were asked if they had enhanced the heritage character of their properties, and despite the age of the CBD's building stock about two-thirds of owners did not respond to this question as they did not consider it relevant to them. Only nine owners, owning 12 properties, claimed to have upgraded the heritage features of their property. However it is not known how many of the 12 properties have actually been renovated. A similar number of people (8), owning 10 properties, had not undertaken any work to improve heritage features of their property. It is not known whether upgrades had been undertaken by previous owners of these 10 properties.

2.3 Impacts of earthquake

The earthquake appears to have caused damage to many of the buildings owned by respondents to the survey. 60% (36) of owners said that buildings they owned required repairs. People whose buildings needed repairs were asked if their insurance policies would cover the full cost of repairs and/or upgrades required by Gisborne District Council. Responses were revealing, as only 15 (42% of owners that needed to repair their properties) believed their insurance policy provided sufficient cover. Meanwhile 13 (36%) owners were certain that their cover was insufficient and a further six owners (17%) were in the precarious position of not knowing if their policy would provide them with full cover.

The most common source of money to fund the shortfall between the cost of repairs/upgrade and the insurance company payout is from the owner's working capital, cash reserves or savings. Eleven of the 20 people who either did not know if they had sufficient cover or were certain that they did not, suggested that they would be self-financing the shortfall in this way. Four others declared that they would be borrowing money or taking out a further mortgage. One person declared that they would be selling the building in its present condition. The remaining owners either did not know how they would be paying for the shortfall or did not respond to this question.

To ascertain the commitment to retaining the heritage features of buildings, owners were asked if it was their intention to repair or replace any damaged decorative features of their buildings. Many people (23) responded that this question was not applicable to them, mainly because they did not consider themselves to be the owner of a heritage building (14). Six people responded affirmatively to this question. One individual said that their intention was to sell the property rather than repair it. This owner was not the same person who had said their intention was to sell rather than self-finance or borrow money to pay for repairs.

2.4 Perceptions of investment risk

In spite of the 2007 earthquake most owners do not appear to be overly concerned about the riskiness of investing in Gisborne's CBD, as a little under two-thirds (38) thought that it was not risky. This figure compares to a little under a quarter of respondents (14) that thought that the CBD was a risky place in which to invest in commercial property since the earthquake. Of the 14 owners concerned about the level of risk investing in Gisborne's CBD, only four had rethought their investment strategy in terms of owning investment property in Gisborne: two owners declared their intention to sell, one other was concerned about the loss of foot traffic in their part of the city centre, affecting their passing trade, and the final owner was increasingly cautious about their investment because of the city's apparent vulnerability to seismic activity. Across responses to all of the questions in the survey it is possible to identify five owners, intending to dispose of their properties in the CBD. In total these owners hold a portfolio of seven properties in the CBD.

The majority of owners (68%) have not altered their investment strategy. Whilst many of these owners did not elaborate on their answers, some common themes were revealed amongst those that did. The first of these themes is that a number of people (9) continue to believe that Gisborne is a good place to invest in commercial property. A variety of reasons were provided, including that: it was still possible to achieve an adequate return on investment in Gisborne; Gisborne is no riskier a place to invest than any other NZ city; the earthquake was a 'one-off'; and, the city's isolation means that there is no real competition for retailers located in the city. Secondly, six people suggested that they did not have to reconsider their investment decisions for as far as they were concerned their buildings were safe, mainly as they had been constructed or had already been reinforced so as to withstand earthquake damage. A final reason provided by a further four owners is that it was their intention to undertake the earthquake strengthening required of them under the Building Act.

When owners were asked about whether they thought tenants would regard the CBD as a secure place to lease a property, the results were a little ambiguous as about a third of respondents said that they did not have a view on this point. When the responses of the remaining 41 respondents are focused on, the picture becomes a little clearer as 78% (32) of these said that they believed that current or prospective tenants would regard it as a secure place to lease, leaving 22% (9) who thought that tenants would think it no longer safe. Concentrating then on the respondents who opined on tenants' views, reveals that the share of their responses to whether the CBD is a safe environment are not dissimilar to owners' own perceptions (risky: 23%, and not risky: 63%). It can therefore be tentatively concluded that somewhere in the region of two-thirds of business people in Gisborne's CBD regard it as relatively safe, with about a quarter of business people considering it a less safe environment since the earthquake.

3 Discussion and conclusions

Like many provincial cities in New Zealand, the building stock in the Gisborne's CBD is generally old, although simply because buildings are old does not mean they possess heritage characteristics. Very few owners of commercial property in Gisborne believe that

there advantages to being located in a place that contains heritage buildings. Although there is a general lack of awareness of whether there are cost differences between a heritage building compared to its modern equivalent, nearly a third of people believe that they are more expensive to buy and maintain. Drawing these findings together, it is suggested that if the city intends to enhance the profile of its built heritage as an element of revitalization, place-making or tourism strategies, there is a need to improve the significance of heritage buildings to existing and potential property investors. For strategies aimed at the built heritage to be successful, investors should have a clearer picture of the wider benefits that can ensue from heritage buildings (Hall 2000; The Allen Consulting Group 2005).

As identified by other research conducted by Opus in Gisborne (Powell 2008), insurance policies will not be covering the full cost of repairs to damage caused by the 2007 earthquake for many business people affected. Owners will be financing the shortfall by either drawing on cash reserves or borrowing. Self-financing repairs may have long-term implications for some owners, whilst delays and disputes over insurance liability may jeopardise the future for others.

In spite of the earthquake and the possible uncertainties surrounding paying for damage, the majority of business people in Gisborne appear committed to their investment in the local community. This could be due to a 'normalisation bias' that results from people affected by a hazard event and who did not suffer negative impacts, developing the belief that future events will not affect them or that they would be able to cope (Becker *et al.* 2001; Johnston *et al.* 1999). Certainly at the time of the survey, very few people were considering selling their commercial properties. People's decisions to continue with their investment in the Gisborne commercial property market are based on their convictions of the financial benefits of their investment, that the potential risk of a further earthquake are small, or because they had already undertaken or intend to undertake earthquake strengthening of their buildings.

Studies in other places have found that immediately after a natural hazard event, people have a higher perception of hazard risk (see, for example, Becker *et al.* 2001; Beron *et al.* 1997). For this reason it should not be overlooked that three months after the earthquake about a quarter of owners (22-23%) believed that investing in commercial property in the city is more risky since the earthquake. This is still a sizeable proportion, equating to roughly 42 of the 188 commercial property owners in the community. If members of this group decide ultimately that the risks are too great and withdraw from the property market, the consequences for the local economy would be potentially significant. Re-building confidence in Gisborne as a place in which to invest and conduct business should therefore be a priority for the local community. Heightened risk awareness often translates into declines in property values at first (Bernkopf *et al.* 1990; Beron *et al.* 1997), but as time passes the risks can fade in people's minds and the impact on prices can prove temporary (Lamond and Proverbs 2006). A follow-up survey will be undertaken in March 2009, in which it is intended to identify whether the level of perceived risk of doing business in the local community has diminished in the year after the initial survey was conducted.

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