

COMMERCIAL PROPERTY
**TENANT EARTHQUAKE RISK
 ASSESSMENT (TERA) SURVEY**



Colliers International Research
 1H 2015

The fifth edition of Colliers International's Tenant Earthquake Risk Assessment (TERA) survey measures the market's understanding, concerns and acceptance of seismic strength issues from an occupier's viewpoint. There was a total of 230 respondents.

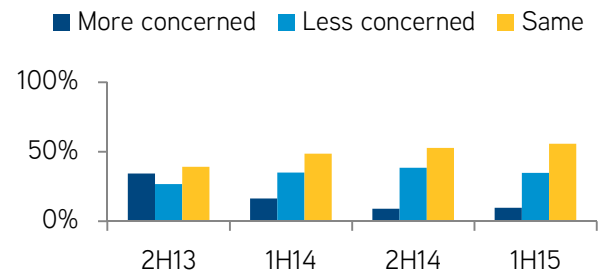
The highlights:

- Respondents concerns regarding seismic strength have plateaued, and in some instances reduced. Only 9% of respondents are more concerned about the seismic strength of their building compared to 34% just 18 months ago.
- Just under half the respondents stated that all regions in New Zealand should be mandated to lift the NBS rating to a minimum of 34%. For respondents who identified specific regions, the top three areas were Wellington (35%), Canterbury (31%) and Hawke's Bay (20%). Only 3% of respondents specifically stated Auckland should be mandated to lift the rating to a minimum of 34% of NBS.
- The majority of occupiers still believe that an NBS rating under 33% is not acceptable. The rating bands were relatively similar, with 41% of respondents indicating between 33% and 67% of NBS was appropriate, and 48% of respondents considered over 67% of NBS was appropriate.
- More than half of the respondents stated they would not want to pay more for a higher seismic rated building. Of the respondents that said yes, when asked how much, a quarter stated between \$11/m² and \$15/m².
- Half of the respondents feel owners should pay to lift the minimum seismic rating of a building to a minimum of 34% of NBS if mandated. Some respondents in the survey continue to feel that government and council should chip in; 12% and 16% in the 1H15 and 2H14 surveys respectively.
- While insurance costs for most are stabilising or decreasing, a third of our respondents state insurance costs were still increasing. Half the increases were between 5% and 20% per annum.

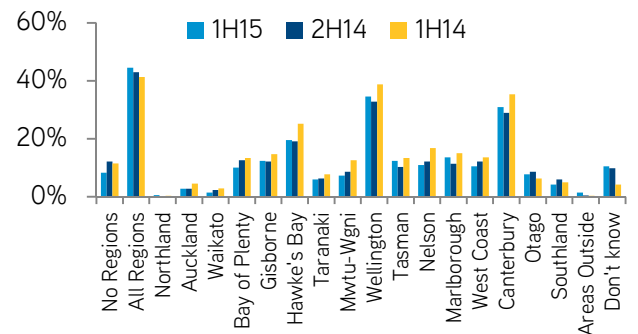
The implications:

- The issue of seismic strengthening requirements and concerns has plateaued over the last 18 months. However, recent announcements by Building and Housing Minister Dr. Nick Smith on changes to strengthening requirements, public registers and a targeted regional approach will bring the issue to the forefront again.

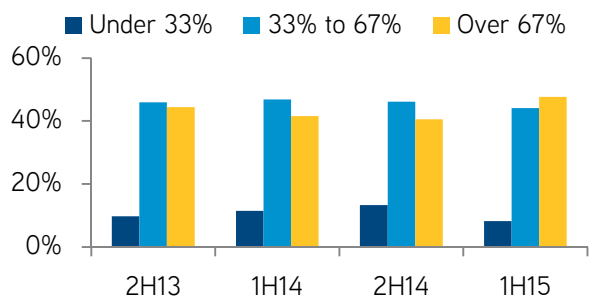
How concerned are you about the seismic strength of the building you occupy now compared to six months ago?



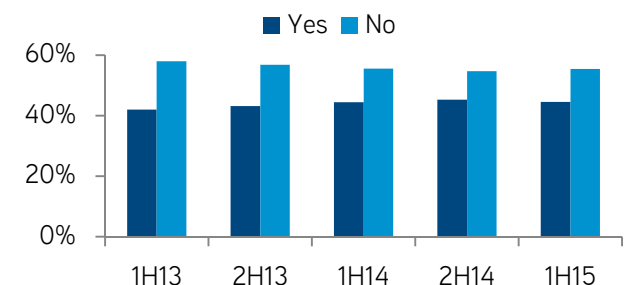
Which regions in New Zealand should be mandated to lift the minimum seismic rating of a building to a minimum of 34% of NBS?



What should the new safe rating be?



Would you pay more rent for a higher seismic rated building?



The implications (continued)

Supporting the views of our respondents, there will be a new regional risk matrix

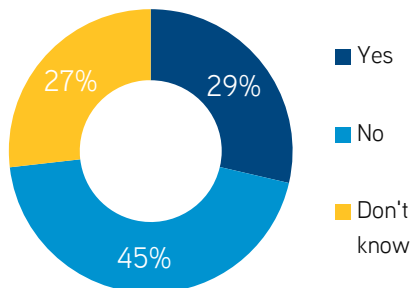
<http://tinyurl.com/targeted-approach-for-EPBs>:

- High risk: five years to assess and 15 years to strengthen,
- Medium risk: 10 years to assess and 25 years to strengthen,
- Low risk: 15 years to assess and 35 years to strengthen.

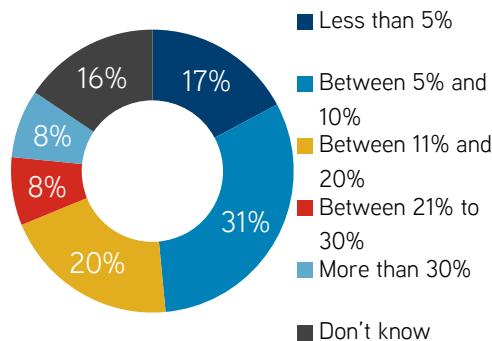
Auckland for example will now have up to 50 years to bring low rated buildings up to a minimum standard of 34% of NBS. Christchurch will have up to 20 years.

- While the timeframes for some regions have been extended, the focus on non-avoidance and rectifying the issue remains a priority. A publicly available register and website will be set-up, and buildings will be required to have notices at their entrance stating if they are below the minimum standard.
- While farm buildings are now excluded, capital expenditure requirements for many commercial building owners of older premises has only been deferred, not removed entirely. The majority of our respondents still feel the cost will need to be borne by the owners. This is likely to see the debate on depreciation costs or tax allowances revisited.
- There will be a requirement to strengthen earthquake-prone buildings when doing substantial alterations. How to treat a low rated office building undergoing a conversion into a residential dwelling - which doesn't require a rating - was not addressed.
- Insurance costs for some of our respondents are still increasing. A third increased by between 5% and 20% per annum.

Have your insurance costs increased over the past year?



By how much has your insurance increased?



Congratulations to Andrew McGrath, ANZ's central area senior relationship manager, who has won the Visa Prezzy Card.

Participate in our next survey and you will be in to win a prize.

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