Inner City Association (ICA) submission on the 2014/15 Draft Annual Plan

Initiative: Incentives to strengthen quake-prone buildings

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I would like to speak at a submission hearing	Yes
I am making this submission as an	Organisation
Name of organisation	Inner City Association
Number of people whose views are represented	400+ individuals are on our mailing list
Steps taken to gather the views of people represented by this submission	Have previously discussed topic after submission on proposal in Dec 2013; have advised members we will be supporting this submission in an email about the recent valuation process for EQ prone residential buildings; gathered feedback on this submission from representatives of affected members

Key points in our submission

- ICA strongly agrees with the intent of the proposed incentives, with the following submission for amendments.
- Rates Remission Policy 2.3
  - The criterion (c) that the unit cannot generate revenue should only apply to truly commercial units. Residential units, where the owners are living, may also need to be vacated and these are not revenue generating.
  - The definition of *commercial, industrial and business differential* must explicitly include residential apartments, as it is not clear that these are covered in the current policy.
- Rates Remission Policy 2.6
  - The period should be extended to 5 years as the current policy only provides a small financial relief to owners and will only be achieved if the pre-strengthening valuation is realistic.
  - That the 'maintenance valuation adjustment' process is used to review 2012 valuations to set realistic pre-strengthening valuations as well as post-strengthening rates before applying the rates remission policy.
  - The rates remission for owners of buildings that have been removed from the site appears to be significantly higher than for owners who have strengthened their building. There must be equity between these categories.

ICA congratulates WCC on taking this step forward to provide some financial support mechanisms to building owners undertaking legislated strengthening requirements, recognising the financial burden that owners are facing. ICA acknowledges that WCC has been actively investigating financial support mechanisms for several years and discussing the issue with owners for some time, while MBIE, Treasury and the Government's engagement with owners on this matter has been non-existent, and the extent of their internal considerations are still unavailable to the public. ICA has lodged an OIA request for information from the Minister of Building and Housing on this topic.

Rates Remission Policy 2.3: Remission of targeted rates on property under development or earthquake strengthening

As drafted, the proposed criteria must all apply for the building to be eligible for the remission. This is not equitable for residential units as criterion (c), will not apply when owners have to leave their apartment (their home) and fund alternative accommodation and storage costs while the strengthening is completed. The criterion (c) should only be applicable to units used for truly commercial purposes, which could include investment rental properties. It should not apply to units used as the home of the owner.

ICA highlighted the inequity of this initiative in our submission in Dec 2013 but nothing has changed. The description of the rates remission is the summary document only refers to a building '*not able to be tenanted'*. Leaving the criteria as proposed would mean that residential owners would have to rely on the discretion of WCC officers, when it should be made explicit in the criteria.

Information provided by officers in Dec 2013 on this aspect of the policy said 'In principle it could potentially apply but in reality individual owners would get the benefit of a few hundred dollars and this would not benefit a Body Corporate who might be funding the costs'. It is the individual owners who are members of the Body Corporate who will be funding the strengthening costs, and if they have to vacate their apartments while the strengthening takes place, they should receive any financial benefit, no matter how small it is perceived to be.

The first paragraph refers to 'residential, commercial and downtown targeted rates on land classified under WCC's *commercial, industrial and business differential* as defined in the Funding Impact Statement Rating Mechanism'. Officers advised that residential buildings are deemed to be commercial buildings when the units and/or building have to be vacated for strengthening work. The proposed rating mechanisms (p89) do not make that clear at all. Residential use is not mentioned.

The wording of the policy and the scope of 'commercial, industrial and business differential' has to clearly state that residential apartments affected by strengthening are covered. It cannot be left to interpretation by officers. ICA has made several submissions about the use of 'commercial buildings' as an easy catch-all for all buildings affected by the EQP building requirements; it seems nothing is changing when it comes to the detailed wording. It makes it very difficult for all affected owners to understand what applies to them.

ICA understands that the 'entire rating unit' is the individual apartment or commercial unit that has to be vacated for the strengthening period, and that the whole building does not have to be vacated for this rates remission criteria to apply.

Rates remission policy 2.6: Remission after the strengthening is completed and the building has been removed from the EQP list

ICA submits that the period of the rates remission has to be longer than the proposed three years, as the actual financial benefit is likely to be small compared to the strengthening costs. ICA submits that this part of the rates remission policy be available for five years after completion of the strengthening work. We understand that commercial owners are also asking that the rates remission period be extended to five years.

The true value of this policy to affected owners will only be realised if the valuations of their property prior to strengthening is realistic. The strengthening process will restore the value that was lost once the building was issued with a s124 notice. ICA has advised its members of the 2012 valuation process for buildings with s124 notices, particularly for residential apartments where strengthening costs were not sought in the same manner as for commercial property.

ICA has outlined options for getting known strengthening costs reflected in the building's valuation now so it will take effect for the next two financial years. However, there are downsides of having another valuation now. It becomes a 'whole building process' and it is likely to be a difficult issue to resolve for some Body Corporates. Some apartments' valuations could rise as a result of the inspection by QV as part of this process. There are downsides too of getting a low valuation to increase the rates remission you may obtain, eg an owner may struggle to refinance their mortgage.

Feedback from some members in buildings with s124 notices indicates that a revaluation is unlikely to be sought given the risks of more uncertainty and increases due to the inspection process and the stress that these owners and the Body Corporate Committees are already under in trying to progress strengthening projects. Residential owners feel let down by WCC and QV in this valuation process.

ICA will remind members of the opportunity to ensure known strengthening costs are taken into account as part of the 2015 valuation process so both business and residential members have the same opportunity to provide information for this process. This will also ensure that owners will be aware of their own opportunity, as an individual owner, to lodge an objection to the valuation, based on their share of the strengthening costs. QV does not have the same obligations to maintain the relativity with the whole building during the free objection period that follows the three-yearly valuation.

Three owners of apartments indicated that their valuations had dropped by either $30,000 or $20,000 due to market changes only, as no strengthening costs were requested by QV. Of these, only one owner had a rate reduction – $57 (2.5%) based on a $30,000 (5.3%) decrease in the valuation. That owner's strengthening costs are $120,000 and she estimated that if the full amount came off the valuation (a 21% reduction) it would result in an annual rates decrease of $220 (9%). It will not be as high as this as the full cost of the strengthening is unlikely to be reflected in the valuation, and the valuation only accounts for 2/3 of the rates.

Under 2.6, owners of EQP buildings that are removed from the site will receive 10% remission of the rates for three years, which ICA supports. Apartment owners who strengthen during the next two years are unlikely to receive much benefit at all from this policy. For many apartment owners, who are living in their homes, demolition is not financially viable, or possible if it's a heritage building. There should be equity between these two rates remission categories but under the current proposals there is not.

ICA submits that WCC should use the 'maintenance valuation adjustments' which are undertaken by QV when the strengthening work is completed, to review the 2012 valuations and provide a more realistic pre-strengthening valuation as well as a post-strengthening valuation, on which to base the rates remission applications. Without such an approach, owners of apartments are likely to have the 2012 valuation reduced anyway – as it would not have been accurate – have the strengthening costs applied, and potentially end up with roughly the same valuation, and get no rates remission benefit.

Summary

ICA acknowledges that the strengthening requirements are imposed by central government, not by local authorities, and we appreciate the support that is being offered. The small financial relief is welcome and we submit that WCC consider extending the rates remission for strengthened homes to five years and to review the 2012 valuations to appropriately factor in strengthening costs before setting the post-strengthening valuation, prior to applying the rates remission policy.

Affected owners who receive this benefit will continue to pay a portion of the cost of this remission policy, as their remaining rates are still subject to the annual rates increases for the period of the rebate.