



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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Residential Earthquake-prone Building Financial Assistance Scheme 12-month Review

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Executive summary

The Residential Earthquake-prone Building Financial Assistance Scheme (the Scheme) launched in September 2020. The Scheme's objective is to help owner-occupiers of residential earthquake-prone buildings in high seismic risk areas facing financial hardship due to the cost of seismically strengthening their earthquake-prone building. The intent was to help them to meet their obligations under the Building Act 2004 and retain their homes.

When Cabinet agreed to the Scheme's settings, it was also agreed that the Scheme would be reviewed 12 months after launch. The 12-month review of the Scheme (the Review) aims to find out whether the current settings are working to achieve its objective and intent. It focuses on the Scheme's settings and operating costs, analysis of take-up (loans issued), and strengthening costs.

The Review is informed by targeted stakeholder consultation conducted by the Ministry of Business, Innovation and Employment (MBIE) in July and August 2021.

The Review found that, while most settings are still aligned with the Scheme's objective, a number of settings require further work to enable the Scheme to achieve its intent. This includes work on some settings that are narrow by design because of the objective of the Scheme, but which present opportunities to better support owners to remediate their buildings.

The Review also found that there are wider barriers that make it challenging for people to remediate their buildings in general – the remediation process is complex, time-consuming, costly, and requires joint decision-making across groups of owners. The Review found that these wider barriers are also preventing owner-occupiers from getting to the point where they can apply for the Scheme. It is likely that changes to the Scheme settings alone would only result in a small number of unit owners being supported to comply with their remediation requirements through the Scheme. Further work is required on options to address the wider barriers to remediation in order to make the Scheme accessible to a wider group of unit owners who are facing financial hardship associated with remediating their earthquake-prone buildings.

The findings relating to the Scheme's settings are as follows:

Eligibility criteria

The Review found that the current eligibility criteria are mostly consistent with the original intent, scope and objective of the Scheme. The Scheme was intended to support owner-occupiers, rather than property investors, and MBIE considers that this is still broadly appropriate. However, there appear to be some situations where people who do not meet the eligibility criteria are facing genuine hardship as a result of having to meet their remediation obligations, whose situation could be considered within the intent of the Scheme. Some flexibility around eligibility should be considered in limited circumstances to accommodate these situations. Specific areas to consider include:

- There are former owner-occupiers who own a single property and are facing financial hardship due to seismic strengthening costs, but who are currently ineligible for the Scheme. This group includes people who bought their unit to live in, but were forced to vacate through force of circumstance. MBIE recommends options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme.
- There is at least one building that had been assessed as not earthquake-prone that was later reassessed as earthquake-prone. Some people bought into the building after the cut-off date for the Scheme and are not eligible, despite purchasing based on information that the building was not earthquake-prone. Work is needed to understand the extent to which owners may have purchased units after the cut-off date, in buildings that have been reassessed as earthquake-prone. MBIE recommends consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme, particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase.
- Some ineligible owners felt they should be eligible for the scheme, and sought clarity on whether discretion by the Chief Executive of Kāinga Ora to grant a loan might apply to them. The Review found that, while discretion was not intended to significantly widen the eligibility criteria outside the original intent, it would be useful to clarify and provide guidance on situations where the Kāinga Ora Chief Executive's discretion may be appropriate.

Application process

The Review found that there are significant barriers to owners reaching the application stage. Since the Scheme's launch in September 2020, no applications have been made (although 42 expressions of interest have been received). MBIE recommends simplifying and better aligning the application process with the stages of the remediation process, including:

- providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process
- considering removing the requirement for a credit check
- considering removing the requirement for a \$500 application establishment fee.

However, most of the barriers preventing people from applying relate to the wider remediation planning process and challenges beyond the Scheme's settings. These include:

- upfront costs – the significant costs needed to get a remediation plan in place (e.g. the cost of getting professional assessments and advice)

- capability – many residential ownership groups lack the capability to navigate a project as complex as remediation
- decision-making – it is difficult to make a decision whether to remediate, sell or demolish especially when not all owners agree, or have differing financial means
- engaging with contractors – some people have had bad and costly experiences with engineers
- lack of buy-in – many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in remediation now.

MBIE recommends further work is done to consider options for addressing these broader barriers to remediation in parallel with any potential changes to the Scheme.

Loan settings

The Review found that current loan settings appear to be consistent with the Scheme’s objective and the funding approved in Budget 2019. The limited data about per-unit strengthening costs received through the consultation process indicated that the current loan cap is appropriate where seismic strengthening is a viable option: fifteen of the nineteen respondents who provided data on their estimated remediation costs indicated costs at or below the maximum loan amount. The Review found that there are outliers where seismic strengthening is significantly more costly (e.g. heritage buildings), but that other support mechanisms should be explored for these specific circumstances. It may also be that some earthquake-prone buildings are not viable to seismically strengthen.

MBIE recommends further work to:

- consider options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE’s broader work to support compliance.
- consider the appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.
- understand the interaction between the Work and Income accommodation supplement and the Scheme.
- consider options for supporting a range of remediation outcomes for buildings (including demolition or on-selling for redevelopment), particularly where seismic strengthening is not a viable option, while aligning with its scope and intent, and
- better understand the impact of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme’s objective.

Interest rate settings

The Review found that the current interest settings are aligned with the intent of the Scheme. The Scheme is a ‘lender of last resort’ that should not be considered in competition with the banks. Not charging interest through the Scheme would be costly for taxpayers with no provision for loan default and would be inconsistent with the interest rate concessions appropriated in Budget 2019.

However, MBIE recommends exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin. MBIE also recommends modifying the communication around the interest rate, particularly the use of the term “low equity margin”, to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

Operating costs

The Review found that while no applications have been made to the Scheme, Kāinga Ora has still incurred operating costs because they have been working with potential applicants to get them ready to apply. The complexity of applicant circumstances and eligibility assessments have also required significant external and internal legal advice.

Kāinga Ora’s 2020/21 actual spend is \$399,986 less than the amount agreed to in their renewed funding agreement in July 2021. This evidence suggests that Kāinga Ora is delivering the Scheme in a cost-effective manner.

However, there may be opportunities to improve the efficiency of the Scheme’s operation even further. Because of the complexity of the barriers discussed in this report, Kāinga Ora is spending a significant amount of time assisting potential applicants through the remediation planning process, rather than just through the application process. Further work is needed to address the barriers identified in this report in order to enable Kāinga Ora to focus on promoting the Scheme and progressing applications.

There is also an opportunity to determine how the promotion of the Scheme can be improved further. To date, Kāinga Ora has relied on Wellington City Council and other unpaid channels to promote the Scheme.

Summary of recommendations

MBIE recommends the following matters be considered, in response to the 12-month review of the Residential Earthquake-prone Building Financial Assistance Scheme:

1. Options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme.

2. Consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme, particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase.
3. Guidance is developed on situations where the Kāinga Ora Chief Executive's discretion may be appropriate.
4. Simplifying and better aligning the application process with the stages of the remediation process, including:
 - providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process
 - considering removing the requirement for a credit check.
 - considering removing the requirement for a \$500 application establishment fee.
5. Further exploration of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme's objective.
6. Further work to understand the interaction between the Work and Income accommodation supplement and the Scheme.
7. Exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin.
8. Modifying the communication around the interest rate, particularly the use of the term "low equity margin", to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

MBIE recommends the following issues be considered by the broader earthquake-prone building work programme, in parallel with any changes to the Scheme:

9. The government's objectives for supporting remediation and compliance with the Earthquake-prone Building System, including potential outcomes outside the limited scope of the Scheme
10. Options for addressing the broader barriers to remediation, including but not limited to those that impact people's ability to apply for the Scheme
11. Options for supporting a range of remediation outcomes for buildings
12. Options for providing financial support (either loans or grants) for the range of costs associated with the remediation process
13. The appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.

Overview

Purpose

This report details the findings of the Residential Earthquake-prone Building Financial Assistance Scheme 12-month Review (the Review). The Review aims to find out whether the current settings of the Residential Earthquake-prone Building Financial Assistance Scheme (the Scheme) are working to achieve the Scheme's objective. The Scheme's objective is to help owner-occupiers, in residential earthquake-prone buildings in high seismic risk areas who are facing financial hardship in meeting the costs of their remediation obligations, to strengthen and retain their homes.

Background

The Scheme launched in September 2020 to support eligible owner-occupiers with seismic strengthening costs and was intended to help reduce the risk of these owners being forced to sell their homes. The Scheme was also intended to have the secondary benefit of incentivising earthquake-prone building remediation within statutory timeframes under the Building Act 2004, to support life safety in the event of a moderate earthquake.

The Ministry of Business, Innovation and Employment (MBIE) oversees the policy settings for the Scheme, which Kāinga Ora delivers.

When the Scheme's settings were agreed by Cabinet, it was also agreed that there would be a review of the Scheme 12 months after the launch. The broad parameters of what was agreed for the Review are:

- the Scheme's settings and operating costs
- analysis of take-up (loans issued), and
- strengthening costs.

Since the Scheme's launch in September 2020, no applications have been made (though 42 expressions of interest have been received). Kāinga Ora, as the delivery agency, has continued to work closely with several earthquake-prone building unit owners who have expressed interest in the Scheme to help them get ready to apply. The Scheme will close for applications on 30 June 2027.

Scope

The scope of the Review is as follows:

Table 1: Scope of the Review

In scope	Out of scope
<ul style="list-style-type: none">• Review of the settings of the Scheme: eligibility criteria, application process, loan settings, interest rate settings• Review of the operating costs of the Scheme• Analysis of take-up (loans issued)• Data on strengthening costs associated with remediation of eligible buildings• Advice to the Minister on how to address the findings of the Review, including analysis of whether changes to the Scheme's settings may help to better achieve the Scheme's objective	<ul style="list-style-type: none">• Policy and Cabinet process to make any changes to the Scheme identified through the 12-month review• Broader work to identify options to support earthquake-prone building owners to comply with their remediation obligations (e.g. potential remediation service)• Ongoing work with Kāinga Ora to oversee the Scheme's delivery

Methodology

The Review is informed by targeted stakeholder consultation conducted by MBIE from 22 July to 18 August 2021 (four weeks). The consultation focused on gathering feedback on barriers to remediation as well as on the Scheme's current settings. The engagement was three-fold:

- A survey was sent to earthquake-prone building unit owners and representative groups¹ to better understand the financial challenges that owners face in remediating. Survey respondents were encouraged to share the survey within their networks – this is known as a 'snowball sampling methodology', and it can lead to pockets of high engagement amongst mature stakeholder networks.
- A separate survey was sent to select urban and rural Territorial Authorities in high seismic risk areas to understand whether the Scheme settings are suited for earthquake-prone building owners in their area, what the range of strengthening costs is in their area, and what assistance programmes they are offering to help people remediate.²
- MBIE conducted interviews with earthquake-prone building unit owners who were identified by Kāinga Ora through the expression of interest process for the Scheme, and who were willing to be contacted by MBIE to give their feedback.

The Review is also informed by ongoing engagement with Kāinga Ora, as the Scheme's delivery agency, including their quarterly performance reports.

¹ InnerCity Wellington, Property Council New Zealand, and the Body Corporate Chairs Group

² Of those surveyed, Manawatu District Council, Napier City Council, New Plymouth District Council, Wellington City Council, Hutt City Council, and Southland District Council responded.

Review findings

This section explains the Scheme's current settings and sets out some of the original assumptions and rationale underpinning these. MBIE has tested the assumptions and rationale against the findings from the targeted consultation. MBIE's findings and conclusions follow below.

A table summarising the findings of the review can be found in Annex One.

Scheme settings

Eligibility criteria

Current settings

To be eligible for a loan, applicants must be a New Zealand citizen, or ordinarily resident in New Zealand, or an overseas person allowed under the Overseas Investment Act 2005. Applicants must have an adequate credit history and be an owner-occupier of the unit for which the loan is being sought.

The unit must have been purchased before 1 July 2017, and be within a residential earthquake-prone building in a high seismic risk area. The building must have been issued an earthquake-prone building notice by the relevant territorial authority.

Applicants must show financial hardship by demonstrating:

- that they cannot get finance for seismic retrofit from a Reserve Bank of New Zealand registered bank or non-bank deposit taker; or
- that the finance they can get from one of the above is conditional on the unit being sold when the building is no longer earthquake-prone; or
- that the finance they can get from one of the above would cause them significant financial hardship.

Assumption 1: If investors (non-owner-occupiers) cannot afford their contribution to seismic strengthening, they have the option to sell their property without losing their home.

During the policy development process there was considerable debate about whether the Scheme should extend to investors. The final Cabinet decision was that only owner-occupiers would be eligible for the Scheme. While a number of factors led to this decision, among them was the rationale that investment in residential property is commercial undertaking where an owner has the option to sell their property (without losing the home they live it) if they are unable to raise the finance to strengthen the building. This is consistent with the purpose of the Scheme, which is to ensure that only people who are at risk of losing their homes are eligible for financial assistance.

In March 2021, MBIE provided to the Minister for Building and Construction further advice on whether the eligibility criteria could be amended to include all owners, not just owner-occupiers.

Initial analyses indicated that there may be opportunities to make minor amendments to the eligibility criteria to better meet the objective of the Scheme.

Finding 1.1: There are former owner-occupiers who had to move out of their unit by force of circumstance who are classified as investors and therefore ineligible for the Scheme, but are not able to sell

Some previous owner-occupiers are now classified as investors and are ineligible for the Scheme. They were originally owner-occupiers who bought their units with the intention of living in them. Some respondents said that they have had to move out due to circumstance (e.g. job, divorce, mental strain from being involved in the earthquake-prone building process). They are not traditional investors as they do not own another property, and selling their residential earthquake-prone building unit with outstanding remediation obligations is not possible. They do receive rental income from their apartments, as the rental market for earthquake-prone units has been less affected than the market to sell.

Through conversations with these former owner-occupiers, Kāinga Ora noted that many people in this situation want to sell, however selling prior to seismic strengthening work being undertaken would result in financial hardship as they would not recover their initial investment. Those that have tried to sell their earthquake-prone building unit report that real estate agents refuse to take on the listing, there is little to no market interest or they are only able to sell at a price that would result in a significant financial hardship for them.

Conclusion 1.1: The circumstances of some former owner-occupiers who only own a single property may be in scope of the intent of the Scheme

The circumstances of some former owner-occupiers who only own a single property may be in scope of the intent of the Scheme. Former owner-occupiers who bought their units with the intention of living in them but had to leave due to force of circumstance are categorised as investors. However, because they only own a single property, they may be closer in circumstance to owner-occupiers than to property investors. For some in this group, the assumption that they are able to sell their property without losing their home if they cannot pay for remediation may not be correct. The government should consider how the Scheme's settings could offer more flexibility to provide for genuine cases of hardship for non-owner-occupiers. Kāinga Ora's Chief Executive's discretion could be used to accept applications from people in this situation.

Finding 1.2: Some investors feel they should be eligible for financial assistance

Several investors said that the Scheme's eligibility criteria do not provide for their circumstances. Some investors felt that they should be eligible for financial assistance because they cannot afford the cost of seismically strengthening their unit and they do not feel that it is fair to expect them to.

Conclusion 1.2: Broadening the eligibility criteria to include investors is not aligned with the original intent, scope or objective of the Scheme

The narrow eligibility criteria were designed to limit the transfer of wealth from taxpayers to private property owners. This is consistent with the purpose of the Scheme to ensure that only people who are at risk of losing their homes are eligible for financial assistance.

While a general widening of eligibility criteria to include investors would not fit with the Scheme’s intent, scope and objective, there may be limited situations where owners who are no longer living in their units could be considered for the Scheme as discussed in Conclusion 1.1.

MBIE recommends:
Options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme

Assumption 2: There would be demand from owner-occupiers in high seismic risk areas across New Zealand

The Scheme’s settings limit applicants to high seismic risk areas, reflecting where compliance concerns have primarily arisen, likely due to remediation deadlines approaching.

It was assumed that owner-occupiers across high seismic risk areas would be interested in the Scheme, and there would be broader demand in these areas across New Zealand.

Finding 2: Most respondents and those who have expressed interest in the Scheme are from Wellington

Most respondents who engaged in the Review (62 of the 65 respondents) and who have sent expressions of interest in the Scheme are from the Wellington region. Some territorial authorities in high seismic risk areas in other parts of New Zealand commented that because of the particular kind of housing stock in their area, the number of buildings that fit the current eligibility criteria is limited (i.e. they don’t have apartment buildings). Southland District Council said that based on the current criteria, no buildings in their high seismic risk area are eligible and this is disappointing for their community, which is a smaller historical town that would like to receive support to preserve their earthquake-prone buildings.

Conclusion 2: There are good reasons why Wellington is most strongly represented in demand for the Scheme, but other parts of the country should be monitored for interest

There are a number of possible explanations for the higher engagement by Wellington residential earthquake-prone building owners. It is possible that the eligibility criteria apply more to Wellington residents due to the age and type of residential buildings in Wellington. Other high seismic risk areas typically have more recently constructed residential buildings while Wellington has more identified ‘priority buildings’ that pose a higher risk of being earthquake-prone.

Wellington City Council have done extensive proactive work to identify earthquake-prone building (dating back to the 1960s) and to engage with earthquake-prone building unit owners. This is likely to be contributing to higher levels of engagement in Wellington. This proactive approach has also meant that the remediation deadlines for buildings in Wellington are generally earlier than in other high seismic risk areas.

High engagement may also be due to a highly engaged lobby group in Wellington. The Review used a snowball sampling methodology that encourages survey respondents to share the survey

within their networks. The engaged owner groups in Wellington were active in sharing the survey.

MBIE will continue to monitor where expressions of interest are coming from as other territorial authorities continue to identify earthquake-prone buildings.

Assumption 3: Owners purchasing units after the cut-off date of 1 July 2017 would be fully aware of the new earthquake-prone building legislation, and therefore prepared to manage the financial costs of remediation obligations

From 1 July 2017, the new national system for managing earthquake prone buildings came into effect. It was assumed that owners purchasing units after this date would be fully aware of the potential earthquake-prone building remediation requirements. If they were to have purchased units after this date, owners would be aware of potential obligations and costs related to units being earthquake-prone and would have been reflected in their purchase prices.

Finding 3: There is at least one building where people bought (after 2017) into an apartment building that had been assessed and determined to be not earthquake-prone that has since been reassessed as earthquake-prone

One of the respondents who spoke to MBIE represented an apartment building in Wellington which was initially assessed as being at 83% New Building Standard (NBS). Some owners purchased their units after 1 July 2017 under this premise. While planning to address significant deferred maintenance in 2021, the building was reassessed by an engineer as an earthquake-prone building. The building has now been rated at <15% NBS. The current settings exclude the owners who purchased their apartments in this building and did not know at the time of purchase that the building would later be confirmed as earthquake-prone.

Conclusion 3: Work is needed to understand the extent to which owners may have purchased units after the cut-off date, in buildings that have since been assessed as earthquake-prone, and options for addressing this

The assumption that owners purchasing units after the cut-off date of 1 July 2017 should be fully aware of the potential earthquake-prone building remediation requirements attached to their building is not correct for the building mentioned above. There may be owners who are not currently eligible for the scheme but who may require financial assistance aligned with the intent of the scheme. It is not known how many owners may be in this situation, so it is difficult to know how widespread this issue may be.

MBIE recommends:
Consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme, particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase

Assumption 4: Applicants who have been declined are able to seek an exemption from the Kāinga Ora Chief Executive

Where an applicant does not meet the owner eligibility criteria and their application has been declined, they are able to seek discretion from the Chief Executive of Kāinga Ora over the

determination of hardship. To address unforeseen circumstances, some flexibility on unit owner eligibility is needed to fulfil the Scheme’s objective.

The Chief Executive of Kāinga Ora has discretion over matters such as illness/sickness, job loss and applications for loans above the maximum level.

Finding 4: Some respondents felt that there should be clarity on the criteria used by Kāinga Ora’s Chief Executive to exercise discretion under the Scheme

Some respondents said clarity is needed on what Kāinga Ora Chief Executive’s discretion relates to, specifically around the eligibility criteria. Those respondents said transparency on what criteria would be used to decide on applications for discretion would help potential applicants understand what circumstances they would need to demonstrate to be considered. Feedback received on this was similar to other feedback received on the application process: respondents preferred a staged approach where there was the ability to get early indication (before investing more time and resources) whether their application had a chance of success or otherwise.

Kāinga Ora advised MBIE that there have been two requests for discretion has been received as of 30 September 2021. Both requesters were advised that more information was needed, as they had not completed full applications. Currently, Kāinga Ora consults MBIE in each instance to ensure that any requests fits the policy intent of the Scheme.

Conclusion 4: Further work is needed to clarify and provide guidance on situations where the Kāinga Ora Chief Executive’s discretion may be appropriate

It is notable that many who expressed interested in this option were deemed investors as they were not owner-occupiers, and therefore not within the original intent of the scheme to support owner-occupiers.

While discretion was not intended to significantly widen eligibility criteria outside the Scheme’s original intent, in general it would be useful to clarify and provide guidance on situations where the Kāinga Ora Chief Executive’s discretion may be appropriate. An example may be the situation discussed in findings 1.1 and 3 above.

MBIE recommends:
Guidance is developed on situations where the Kāinga Ora Chief Executive’s discretion may be appropriate

Application process

Current settings

Earthquake-prone building unit owners who are interested in the Scheme can express interest via an online form. Expressions of Interest can be submitted by anyone.

When an Expression of Interest is received, Kāinga Ora contacts the submitter to offer assistance or answer any questions. These conversations have not led to any applications. However, Kāinga Ora has spent significant amounts of time with potential applicants, to get them ready to apply. The application process allows applicants to download the form from Kāinga Ora’s website and provide the following required documents:

- proof of identify and address
- proof of resident status
- proof of ownership of the unit – usually a copy of the record of title, or a copy of the Agreement for Sale and Purchase
- evidence to demonstrate the property ownership structure for the building
- a copy of the building’s Earthquake-prone Building notice issued by the Territorial Authority
- a copy of the bank letter declining or conditionally approving a loan application, or evidence of significant financial hardship, and transactional bank statements for the last three months
- a copy of pre- and post-remediation valuation of the building
- evidence of finalised or indicative levies required for the remediation work
- a copy of building and works insurance certificates, and
- a copy of the Works Contract.

Successful applicants are required to pay an establishment fee that is half of the actual costs of establishing the loan, to a maximum of \$500.

If an application has been declined, applicants are able to seek an exemption from the Kāinga Ora Chief Executive.

Assumption 5: Owners will be in a position to obtain and supply all the information required to apply to the Scheme

Finding 5: There are significant barriers to owners reaching the application stage. Some of the barriers relate to Scheme settings, but many are broader barriers about the remediation process itself

The earthquake-prone building owners’ survey found that while there was high awareness of the Scheme, only 24 percent of respondents had submitted an expression of interest. As of 30 September 2021, 42 expressions of interest had been received but no applications had been made. Kāinga Ora continues to work closely with several earthquake-prone building unit owners who have expressed interest in the Scheme to help them get ready to apply. The lack of applications is because there are significant barriers to owners reaching the application stage.

Some respondents said that a staged application process where potential applicants could get an early indication of their likelihood of success would better reflect the milestone payment model of the construction process as they would be able to know if they will have finance available for remediation. Respondents commented that the lack of certainty of funding to progress and pay for the information required to apply to the Scheme was a barrier to application.

Respondents said that some of the information required, such as evidence of finalised or indicative levies for the remediation work and a copy of the Works Contract, could only be acquired by people further along their remediation journey. Access to this information usually

requires owners to have engaged and paid for professional or expert advice. Respondents said that having to undertake these processes and pay these costs without early indication whether their application is likely to be accepted or declined is difficult, stressful and a barrier to compliance.

Some respondents also felt that the information required to apply was confronting and demeaning (e.g. a letter of rejection from a bank). One respondent gave the example of being required to show good credit history. This respondent was unsure why this was needed and questioned whether it was appropriate given that the Scheme was designed to be a lender of last resort for people who could not get finance from a bank.

Kāinga Ora observed that, in practice, the length of time for an initial enquiry to result in a loan application is likely to be considerable because the remediation process is complex. Kāinga Ora has spent a significant amount of time guiding people through the process of preparing for application. The documentation applicants are being asked to supply (e.g. a copy of pre- and post-remediation valuation of the building, evidence of finalised or indicative levies required for remediation, a copy of the Works Contract) requires them to undertake other significant planning processes and come to a consensus as a collective ownership group. Respondents said that the remediation process is complex and difficult to progress. Many respondents voiced the need for support to help them navigate what need and understand technical advice.

Collective decision-making in an ownership group made up of owners with a range of views and financial situations has also proved challenging to many.

Many respondents said that understanding and managing their obligations is the equivalent to a full-time job. Some owners found they needed to hire a project manager to do this for them. A common theme of respondents' comments was that support to navigate the remediation process would be helpful.

Kāinga Ora provided feedback on the establishment fee, commenting that the need for this fee is questionable. The establishment fee was intended to incentivise genuine applications to the scheme and avoid "time wasters". Kāinga Ora's experience to date is that the greatest amount of time and effort goes into the Expression of Interest stage prior to application. By the time an application is lodged, the applicant has already undertaken a substantial amount of work. Therefore, a potential applicant has already demonstrated their commitment to the application process by the time they apply.

Conclusion 5: There are some issues with the application process to address, but many of the barriers preventing people from applying relate to the wider remediation planning process and will need to be considered as part of a work to explore options for addressing the broader barriers to remediation

Some barriers can be addressed by making changes to the application process itself. For instance, further work can be undertaken to address feedback that:

- the application process is confusing and complicated
- some requirements are confronting or unnecessary
- a multi-stage process would give some financial certainty earlier in the planning process, enabling progress.

MBIE recommends considering how the application process could be simplified and better aligned to the remediation process. This will include consideration of removal of the \$500 establishment fee per application to the Scheme.

However, many of the barriers applicants face are beyond what the Scheme is designed to address, which is owner-occupiers facing financial hardship and losing their homes. These include:

- upfront costs – the significant costs needed to get a remediation plan in place (e.g. the cost of getting professional assessments and advice)
- capability – many residential ownership groups lack the capability to navigate a project as complex as remediation
- decision-making – it is difficult to make a decision whether to remediate, sell or demolish especially when not all owners agree, or have differing financial means
- engaging with contractors – some people have had bad and costly experiences with engineers
- lack of buy-in – many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in remediation now.

More information on wider barriers in the remediation process is included in the Earthquake-prone Building System Targeted Consultation Summary attached in Annex Two. Adjustments to the Scheme's settings will not address these wider compliance barriers on their own. MBIE recommends exploring options for addressing these broader barriers to remediation. Options could include better information and education, and a remediation service to support unit owners through the decision-making required in the remediation process.

Some of the loan settings in the section below have also been identified as barriers to application.

MBIE recommends:

- Simplifying and better aligning the application process with the stages of the remediation process, including:
 - providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process
 - considering removing the requirement for a credit check
 - considering removing the requirement for a \$500 application establishment fee.
- That the following issues be considered by the broader earthquake-prone building work programme, in parallel with any changes to the Scheme:
 - the government's objectives for supporting remediation and compliance with the Earthquake-prone Building System, including potential outcomes outside the limited scope of the Scheme

- options for addressing the broader barriers to remediation, including but not limited to those that impact people’s ability to apply for the Scheme
- the appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.

Loan settings

Current settings

Loans are secured by a mortgage, charge or other security against a unit’s record of title, to a maximum of \$250,000. The Chief Executive of Kāinga Ora has limited discretion to approve amounts above this on a case-by-case basis. The loan is for the seismic retrofit of units, up to 100% NBS.

Loans (and interest on the loans) are only repayable:

- on the unit’s sale
- twelve months after the last owner’s death
- if the owner is no longer an owner-occupier, or
- if the borrower defaults (i.e. where there is another mortgage on the unit and the borrower defaults on that loan or they become personally insolvent or obtain a loan by deception).

The loan also provides for voluntary loan repayments with no early repayment fees.

Assumption 6: Earthquake-prone unit owners have access to building insurance

Currently, applicants to the Scheme must have building insurance in order to meet Kāinga Ora’s loan security requirements. This is because part of the rationale for having the loans secured by a mortgage, charge or other security against the unit’s record of title is that building insurance is a common condition that is tagged to mortgage-like loans. Such secured loans protect the Crown’s interests by having security over the unit, albeit, ranking behind any existing security (e.g. mortgages) and insurance. This is in line with bank requirements for loan security. It was assumed that residential earthquake-prone building owners would have access to building insurance.

Finding 6: The requirement for insurance is a barrier for many applicants who have been priced out by their insurers

Multiple respondents identified the building insurance requirement as a barrier to application as many are unable to maintain their building insurance. This is because they have been priced out by their insurance provider (both overseas and local providers). One respondent provided the example of their building insurance costs increasing significantly since 2015. For this particular building, insurance levies were at \$25,000 per annum in 2014-2015. In 2016, the building’s insurance levy increased to over \$46,000 per annum; by 2021 the building’s insurance levy had increased to over \$230,000. In some cases, local insurers have simply declined to insure earthquake-prone buildings. Respondents also said that it may be challenging to get building insurance even after a building is remediated. Some building owners were told by their

insurance provider that they will not provide cover for buildings assessed at less than 67% NBS. This is problematic because some owners may only be able to afford to strengthen their building to 34% NBS. This is further discussed in the Strengthening Costs section of the report.

Conclusion 6: The requirement for applicants to have building insurance may need to be reviewed

Given that insurance is unaffordable or unattainable for some buildings, the requirement for applicants to the Scheme to have building insurance may need to be reviewed.

It is unclear if the issue of building insurance affordability for earthquake-prone buildings is limited to the Wellington region or is an issue across New Zealand.

MBIE recommends:

Further exploration of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme's objective

Assumption 7: It is possible for most buildings for security to be registered against individual interests, and this is necessary to protect the Crown's investment

Most multi-unit buildings are owned through unit title structures, or other structures that make it possible for security to be registered against individual unit title interests (i.e. an apartment and any associated property, like a carpark).

The settings for providing loan security protects the Crown's interests by having security over the unit, albeit ranking behind any existing security (e.g. mortgages) and insurance. Legal advice received by Kāinga Ora indicated that of the different types of multi-unit ownership structures (i.e. unit title, company share, cross-lease, fee simple with join/shared interests, long term lease, licence to occupy), the unit title structure allowed for the best method of taking security.

Under a unit title ownership structure, a mortgage can be registered over individual unit title interests. This means that in the event that the mortgage needs to be enforced, the mortgagee is able to take possession of the property, in a similar way to a freehold title. Under a company share structure (where the owner owns a share in a company, which comes with some form of licence to occupy a particular unit in the building), a mortgage can only be registered over individual interests if the occupation licences are registered with Toitū Te Whenua Land Information New Zealand. Where a company share structure has unregistered company share licences, a lender can take an unregistered mortgage over the occupation licence or security over shares. However, because the mortgage would remain unregistered, enforcement is more difficult. As a result, Kāinga Ora's security position could be undermined if a licence holder fails to disclose prior existing lending, or takes advantage of this non-registration in order to take out additional lending after borrowing from Kāinga Ora. In the event of enforcement, Kāinga Ora would need to enforce in relation to the shares and the licence to occupy.

Finding 7: The current settings make accessing the Scheme difficult for buildings with company share structures with unregistered occupancy licences

A respondent from one building said that the current settings around providing loan security make it difficult for owners in their building that is owned through a company share structure with unregistered occupancy licences to access the Scheme. This respondent said that owners in their building are reluctant to register their occupancy licences or change their ownership structure because of the additional cost associated and the resulting loss of their ability to veto who buys into the building. InnerCity Wellington noted that other ownership structures have not been adequately considered in the criteria and process.

Conclusion 7: The requirement for providing loan security is still in line with the Scheme's intent, and affected owners are likely to have options available to them to meet this requirement

The intent of this setting, protecting the Crown's interests by having security over the unit, is still in line with the Scheme's intent. The respondents in the particular case discussed above (i.e. company share with unregistered occupation licences) have the option to register their occupation licences or change their ownership structure to a unit title structure to access the Scheme.

Assumption 8: A loan is the appropriate form of financial assistance

Budget 2019 approved financial assistance (funding for lending) for affected unit owners in residential earthquake-prone buildings (and household unit owners in mixed use earthquake-prone buildings) as a deferred payment loan with a below market rate of interest. Because the Scheme supports the private retention of home ownership over a long period of time, an affordable loan is an appropriate form of assistance (as opposed to a grant) because it avoids a wealth transfer from tax payers to private property owners, contention around the role of government in body corporate decisions, and creating ongoing Crown obligations.

Cabinet decided against grants because non-repayable grants would need to be at a much lower financial level and would not adequately address the affordability issues facing affected unit owners. A small grant is also unlikely to create further incentives to remediate or improve a borrower's capacity to repay a commercial loan. A grant also involves a transfer of taxpayer funded wealth to private property owners. A grant scheme would also be inequitable for those who have already strengthened their buildings.

Finding 8: Some respondents felt that the Scheme should provide a grant instead of a loan

A significant number of respondents said it is not fair that Wellington property owners have to pay to strengthen their buildings to ensure they are safe, when they believed there were other instances where public money was spent to address public safety concerns. Examples given included the prohibited firearm buy-back scheme, the Wellington City Council public safety fund, and the Christchurch earthquake recovery programme.

InnerCity Wellington submitted that many of the owners in their network do not want a debt for a government-imposed compliance burden. They propose that because the benefit of strengthening earthquake-prone buildings is shared between the government and building owners, the costs of remediation should also be shared.

Wellington City Council provided feedback that grants to contribute to upfront costs in the earlier stages of remediation planning might be a good way to promote compliance. This was based on experience from the Unreinforced Masonry Buildings Securing Fund.

Conclusion 8: The design of the Scheme as a loan is consistent with the Scheme’s objective and the funding approved in Budget 2019

It is likely that a non-repayable grant would need to be at a much lower financial level and would not adequately address the affordability issues faced by affected unit owners. A grant also involves a transfer of taxpayer funded wealth to private property owners. This would be inequitable for those who have already strengthened their buildings.

However, upfront grants for some of the early process costs such as engineering assessments (rather than for the strengthening itself) could potentially play a role in helping affected owner-occupiers be in a position to apply for financial assistance through the Scheme. The issue of upfront costs as a barrier to application is discussed in the Application Process section (Conclusion 5).

MBIE recommends:
Considering options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE’s broader work to support compliance

Assumption 9: Providing for the cost of seismic retrofit construction costs is an appropriate scope for a loan through the Scheme

Loans are only for direct seismic retrofit construction costs (up to 100% NBS); costs for reinstatement up to current Building Code requirements; engineering costs related to an agreed repair plan; and other costs that may be required by regulation (e.g. fire safety upgrades and upgrades for people with disabilities).

The scope excludes personal and retrospective costs, and anything that increases a building’s capital or amenity value beyond seismic work (e.g. adding extra units, additional balconies, or extra carparks).

Finding 9: Some respondents feel the Scheme should provide for some of the necessary costs incurred before remediation (e.g an engineering assessment), and relocation, temporary accommodation or storage costs

Respondents said that significant costs are incurred in the planning stage of the remediation journey and that funding is needed to meet these costs. Engaging professionals to assess their buildings and advise or plan remediation has cost many respondents thousands of dollars. These costs are additional to the actual remediation (construction or demolition) costs. Wellington City Council also submitted similar feedback. They suggested that funding should be considered for costs incurred prior to the construction work, such as engineering assessments and design concepts.

It is unclear what the average cost per unit is for related expenses like engineering assessments and legal advice. Respondents who provided estimated remediation costs that were inclusive of related expenses like engineering assessments and legal advice only provided costs for their whole building. These total costs ranged from \$500,000 to \$20,000,000. The average cost of remediating a building, according to the data, is \$5,676,667 including related expenses.

There are some remediation plans that require occupants to relocate for the duration of construction. The Scheme does not cover expenses related to storage or alternative accommodation while remediation is undertaken. Several respondents said they would need financial aid to afford alternative accommodation (on top of their mortgage payments) in this scenario.

Conclusion 9: The scope of costs provided for is consistent with the Scheme’s objective

The scope of costs provided for by the Scheme was designed to be narrow to reflect its objective. Widening the scope of the Scheme would require further work as this could have significant impacts. For instance, demand for the Scheme may outstrip the \$10 million currently available for loans.

MBIE recommends:
Considering options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE’s broader work to support compliance

Assumption 10: The ineligibility for a Work and Income accommodation supplement resulting from a successful loan application is not an issue

Finding 10: Some respondents feel that the resulting ineligibility for a Work and Income accommodation supplement is problematic because people receiving the supplement need as much financial assistance as they can get

Under section 66(1)(c) of the Social Security Act 2018, no person is eligible for an accommodation supplement if their accommodation costs include mortgage payments, required to be made under a mortgage security to Kāinga Ora or the Crown in right of Te Puni Kōkiri, that the Ministry of Social Development believes are required to be made at a concessionary rate. Because the Scheme provides sub-market lending, a person who receives a loan under the Scheme cannot get an accommodation supplement from Work and Income.

If, at the time of application, the person is receiving an accommodation supplement, it will stop from the date they get the loan from Kāinga Ora. They will not be able to get an accommodation supplement until they have repaid the loan and the mortgage obligation is discharged. The Ministry of Social Development advised MBIE that this provision originated from when the Housing Corporation provided concessionary mortgages, and was intended to prevent double-dipping (i.e. to prevent a person from receiving both a concessionary mortgage and a housing subsidy).

Some respondents identified that should they successfully apply to the Scheme, they become ineligible for a Work and Income accommodation supplement. Respondents said this is problematic because those who receive the supplement are low or fixed income owners who need as much financial assistance as they can get to complete remediation. For instance, Kāinga Ora is aware of a person with a disability who is on a supported living benefit and has no way of increasing their income. This person said that it is difficult enough to pay their existing mortgage while receiving a supported living benefit, and that without it they will be unable to pay their current mortgage, let alone the additional cost of a loan through the Scheme.

Conclusion 10: Further work is needed to understand the interaction between the Work and Income accommodation supplement and the Scheme

The ineligibility of a person who receives a loan under the Scheme to get an accommodation supplement from Work and Income is legislated for under the Social Security Act 1964. Further work is needed to understand this interaction and what a good outcome might be.

MBIE recommends:
Further work to understand the interaction between the Work and Income accommodation supplement and the Scheme

Assumption 11: The maximum loan amount available per unit is appropriate

Loans are for up to a maximum of \$250,000. The Chief Executive of Kāinga Ora has limited discretion to approve amounts above this on a case-by-case basis.

The maximum loan amount available per unit fits within the Budget envelope and means at least 50 loans could be issued. This is based on the estimate from MartinJenkins that 5 to 20 per cent of residential earthquake-prone building owners in high seismic risk areas could face financial hardship in respect of earthquake strengthening costs, and that the cost per unit to strengthen in Wellington City ranges from \$14,000 to \$788,000.

Finding 11: Some respondents feel there is insufficient funding available to support remediation costs

Fifteen of the nineteen respondents who provided data on their estimated remediation costs indicated costs at or below the maximum loan amount.

However, some respondents interviewed by MBIE said that more funding needed to be made available. Respondents' feedback focused on all the costs incurred in the remediation process. Low or fixed income owners (e.g. retirees) said they cannot afford remediation, even if they are able to access the \$250,000 loan provided by the Scheme, as this is not enough to cover the full costs incurred in the remediation journey such as professional assessments of the building prior to remediation, or the costs of alternative accommodation. Many owners in or nearing retirement said that they are finding that their retirement savings are being consumed by their remediation obligations, and relocation costs.

The loan amount is challenging for heritage buildings. Remediating heritage buildings is typically more complex and costly because owners do not have the option to remediate through demolition, and must adhere to additional heritage requirements.

InnerCity Wellington submitted that it is impossible for earthquake-prone building owners to comply without incurring financial losses. Other respondents said they are more afraid of the risk of poverty or homelessness should they push to remediate, than if the building were to collapse in an earthquake.

Conclusion 11: Given that the loan only applies to strengthening costs, the current loan cap is appropriate where seismic strengthening is a viable option

Given that most estimates of remediation costs per unit (excluding related expenses) fell within the loan limit, MBIE concludes that the current cap appears to be appropriate where strengthening is a viable option. In the exceptional cases where remediation is significantly more costly than the cap (such as heritage buildings), other options should be explored (e.g. the Heritage EQUIP programme, which was recently suspended). The additional costs outside of remediation costs are out of the current scope of the Scheme. However, as indicated in other sections, MBIE's work on options for addressing broader barriers to remediation can consider whether it may be appropriate for government to provide support for these costs, and what would be the best vehicle for this support.

It may be the case that some buildings are not economically viable to remediate through seismic strengthening, even to the minimum threshold of 34% NBS. In these cases the best remediation outcome may be for the building to be demolished or sold on for redevelopment. Many owners seem to favour seismic strengthening as their preferred remediation option (at any cost) and rarely come to a remediation decision to sell their building 'as is' or demolish their building.

The way that the Scheme's settings focus on seismically strengthening earthquake-prone buildings potentially over-incentivises seismic strengthening, which may be a sub-optimal outcome for owners of some buildings.

A full analysis of strengthening costs can be found in Annex Three.

MBIE recommends:
Considering options for supporting a range of remediation outcomes for buildings as part of MBIE's broader work on options for addressing broader barriers to remediation

Interest rate settings

Current settings

The interest rate for the Scheme is set as a below market rate. It is fixed for five years with rate reviews at loan anniversaries. Interest rates are calculated daily and compound annually.

The current interest rate for the Scheme is 60% of the sum of the Reserve Bank's monthly average of five year fixed interest rates and a low equity margin of 1.25%.

Assumption 12: An interest-free loan would be an implicit subsidy, which would not be fair to taxpayers

As part of the development of the Scheme in 2019, MBIE looked into three options for setting the interest rate. These were:

- Option 1 – interest free
- Option 2 – a fixed interest rate for the Financial Assistance Scheme's entire duration
- Option 3 – a below market rate of interest loan with five-yearly review.

MBIE concluded that an interest rate should be charged on the loans. An interest-free loan could be seen as an implicit subsidy to private property owners and provides no incentive to repay. This approach would be costly for taxpayers with no provision for loan default and is inconsistent with the interest rate concessions appropriated in Budget 2019. Charging an interest rate is also consistent with the Scheme operating as a loan rather than a grant, and incentivising repayment if possible.

A fixed interest rate with no review period was not advised when the Scheme was being developed because it could disadvantage borrowers if interest rates continued to fall (at the time, interest rates were expected to fall further).

Finding 12: Some respondents felt that being charged interest and a low equity margin is not fair

Some respondents do not believe it is fair that interest is being charged. Some said the interest rate calculation is confusing and is difficult for to understand. InnerCity Wellington said that the interest rate increases the debt for borrowers and is higher than what would be needed to cover the Scheme's administration costs. In their submission, they say a borrower with a \$200,000 loan, at the current interest rate of 3.28% per annum, would double the size of their loan over a 20-year period (if they were not to make any repayments). Repaying the debt upon sale or death would take a large proportion of any future sale price or estate and creates risk of negative equity for the borrower.

InnerCity Wellington also said that the low-equity margin is unreasonable and inequitable because it ignores that the debt is only taken on by owners to meet government-imposed compliance costs that banks refuse to fund. Kāinga Ora observed that some owners take offence to the use of the term "low equity margin", where they may actually have 100% equity in their property but are unable to secure a loan for other reasons.

Current interest rates advertised by banks are not available to unit owners who are eligible for the Scheme. This is because banks are not willing to lend to eligible unit owners as they are considered high risk. For medium risk applicants, it is standard practice for a bank to charge a risk premium to the interest rate (called a low-equity margin). If an eligible unit owner was able to get a loan from a bank, it would likely include an additional risk premium (low-equity margin) given the high risk nature of the applicant's financial situation. The low equity margin is fixed and not adjusted with the interest rate. Banks have the ability to review their low-equity margins. The low equity margins currently set by banks are between 0.3 and 1.5 percent depending on the level of lending risk. The risk profile for applicants that can get a low-equity margin loan from a registered bank is lower than the potential applicant who is unable to get a loan from a bank at all.

Cabinet agreed that the Scheme would not pursue negative equity. Depending on market conditions, there is a risk that loans may see the unit worth less than what is owed. The Scheme settings are such that the Scheme will remit what is owed (principal and interest) after the sale of the unit to avoid negative equity.

Conclusion 12: The interest rate settings are aligned with the intent of the Scheme, but additional clarity can be provided

The interest rate settings are aligned with the intent of the Scheme. The Scheme should not be considered in competition with the banks. As a ‘lender of last resort’, eligible unit owners do not have any other option to finance seismically strengthening their building. Should interest not be charged through the Scheme, this would be costly for taxpayers with no provision for loan default and is inconsistent with the interest rate concessions appropriated in Budget 2019.

While the discounted interest rate is higher than the interest rates offered to low and medium risk borrowers, eligible unit owners have the additional benefit of not being required to pay back the loan or interest until the unit owner sells the unit, rents out the unit or passes away. If the banks were willing to lend to eligible owners they would be charging higher interest rates than what the Scheme provides, and there would be no option offered for deferred payments.

However, there may be ways to simplify the way interest is calculated for potential applicants. MBIE recommends exploring whether there is a simpler way to calculate interest, and whether a fixed-term interest rate may be appropriate. MBIE also recommends modifying the communication around the interest rate, particularly the use of the term “low equity margin” be modified to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

MBIE recommends:

- Exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin
- Modifying the communication around the interest rate, particularly the use of the term “low equity margin”, to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort

Operating costs

Budget 2019 appropriated \$23.3 million over four years to support the remediation of multi-unit, multi-storey residential earthquake-prone buildings through a loan scheme. The initial forecast set up and operating costs of the Scheme assumed that it would be delivered by MBIE, as the eligibility criteria and delivery agent had not been decided by Cabinet (Table 2 refers).

In January 2020, policy decisions on the eligibility criteria and delivery agent were decided by Cabinet. Cabinet decided that Kāinga Ora had the potential to set up and deliver the Scheme as they inherited a track record of delivering housing-related financial assistance and were established with broadly enabling legislation that provides for making loans for housing purposes on behalf of the Crown. Cabinet decided that, based on Kāinga Ora being the delivery agent, the operating costs could be reduced by 25 to 30 per cent for each financial year.

In February 2021, MBIE advised that due to the low demand for the Scheme and Kāinga Ora’s efficiency in setting up and delivering the Scheme, there was a \$2.5 million underspend in the appropriation that funded Kāinga Ora’s administration activities for the 2020/21 financial year.

As a result, the underspend in appropriation was reprioritised and allocated to the Building for Climate Change programme under the Building and Construction portfolio.

In July 2021, Kāinga Ora and MBIE agreed on a new funding agreement for the set up and administration of the Scheme. The last row of Table 2 below reflects the final level of appropriation that Kāinga Ora had for the 2020/21 financial year and has for future years. This includes changes made to baseline as part of the baseline updates (MBU/OBU) and hence the reduction to funding available.

Table 2: Forecast set up and operating costs of Scheme

(\$m)	2019/20	2020/21	2021/22	2022/23 and outyears	Total
MBIE as delivery agent	3.000	2.500	1.500	1.500	8.500
Kāinga Ora as delivery agent (January 2020)	2.250 (25% reduction)	1.750 (30% reduction)	1.125 (25% reduction)	1.125 (25% reduction)	6.250 (26% reduction)
New funding agreement (July 2021)	0.292 (actuals)	0.958	1.125	1.125	1.500

Table 3 below shows Kāinga Ora's internal forecast operating costs and actual costs incurred.

Table 3: 2020/21 full year actuals and 2021/22 year to date actuals versus forecast as of 30 September 2021

(\$)	2020/21 Actual	2020/21 Forecast	2021/22 Year to Date Actual	2021/22 Forecast
Income	545,482	844,000	33,375	750,000
Expenses				
Personnel	83,417	96,927	27,500	111,000
Travel	708	-	-	-
Professional fees (including legal fees for advice provided by Chapman Tripp)	165,485	181,428	-	87,000
Consultants (includes marketing)	96,415	96,415	-	112,000
Other (including indirect business support and overhead costs charged back to MBIE monthly)	211,990	237,201	34,694	200,000
Total Expenses	558,014	611,971	62,194	510,000
Buffer		232,029		240,000

During the development of the Scheme, personnel expenses included staff charges for a project manager (consultant) who worked on the programme for six months. From the launch of the Scheme, personnel expenses were limited to a dedicated Kāinga Ora staff member working on the programme full-time.

Kāinga Ora's professional fees expenses include legal fees. The legal fees incurred to date are primarily in relation to the conditional approval applications for owners of some of the apartments that Kāinga Ora has been working with to get them ready to apply. Kāinga Ora advised MBIE that the complexity of applicant circumstances and criteria assessments require significant external and internal legal advice. With several complex enquiries already in train, Kāinga Ora anticipates that this situation will continue.

The other expenses incurred by Kāinga Ora include 'overhead costs' that comprise two basic elements:

- generic overhead allocation – building rental and facilities, and
- subject matter expert charges – staff charges for Kāinga Ora functional teams external to the earthquake-prone building programme that were, or are, involved in the Scheme's development or on-going administration (e.g. legal, finance, government relations, and marketing teams).

Now that the Scheme is operational, the full year forecast for administering the scheme in 2021/22 is \$750,000. Kāinga Ora has internally forecast an operating cost of \$510,000 with a buffer of \$240,000 to accommodate any unexpected cost increases.

Conclusion

The forecasts made while designing the Scheme were based on an assumption around the likely uptake of the Scheme. This assumption proved to be incorrect when there was a \$2.5 million underspend in February 2020 due, in part, to low demand for the Scheme. This was addressed by reprioritising the underspend and allocating it to the Building for Climate Change programme.

There have been no applications to the Scheme. However, Kāinga Ora has still incurred operating costs because they have been working with potential applicants to get them ready to apply. The complexity of applicant circumstances and criteria assessments have also required significant external and internal legal advice. Kāinga Ora's 2020/21 actual spend is \$399,986 less than the amount agreed to in their renewed funding agreement in July 2021. Based on the information above, MBIE has no cause to conclude that Kāinga Ora is not delivering the Scheme in a cost-effective manner.

However, there may be opportunities to improve the efficiency of the Scheme's operation even further. Because of the complexity of the barriers discussed in this report, Kāinga Ora is spending a significant amount of time assisting potential applicants through the remediation planning process, rather than solely through the application process. While MBIE has received feedback that this approach has been very helpful to potential applicants, this was not the original role intended for Kāinga Ora. Further work is needed to address the barriers identified in this report in order to enable Kāinga Ora to focus on promoting the Scheme and progressing applications.

There is also an opportunity to determine how the promotion of the Scheme can be improved further. To date, Kāinga Ora has relied on Wellington City Council and other unpaid channels to promote the Scheme.

Strengthening costs

MBIE received feedback from 39 respondents who provided estimates of their remediation costs.

Data received by MBIE shows that the lowest estimated strengthening cost per unit is \$60,000 while the highest estimated cost per unit is \$900,000. The average remediation cost per unit is \$255,000. Fifteen of the nineteen respondents who provided data on their estimated remediation costs per unit indicated costs at or below the maximum loan amount. There are outliers where seismic strengthening is significantly more costly (e.g. heritage buildings), but other support mechanisms should be explored for these specific circumstances. It may also be that some earthquake-prone buildings are not viable to seismically strengthen.

An analysis of the data collected can be found in Annex Three.

Conclusion

While the Scheme has been operating for 12 months, there have been no applications received. The Review found that most settings are still aligned with the Scheme's objective to help owner-occupiers of residential earthquake-prone buildings in high seismic risk areas facing financial hardship due to the cost of seismically strengthening their earthquake-prone building. However, a number of settings require further work to enable the Scheme to achieve its objective and facilitate the receipt of applications to the Scheme. These include work on some settings that are narrow by design because of the objective of the Scheme, but that present opportunities to unlock compliance and applications. The Review also found that there are wider barriers that make it challenging for people to remediate their buildings in general – the remediation process is complex, time-consuming, costly, and requires joint decision-making across groups of owners. The Review found that these wider barriers are also preventing owner-occupiers from getting to the point where they can apply for the Scheme. MBIE will explore options for addressing these broader barriers to remediation. A summary of these conclusions can be found in Annex Two.

The findings relating to the Scheme's settings are as follows:

Eligibility criteria

The Review found that the current eligibility criteria are mostly consistent with the original intent, scope and objective of the Scheme. The Scheme was intended to support owner-occupiers, rather than property investors, and MBIE considers that this is still broadly appropriate. However, there appear to be some situations where people who do not meet the eligibility criteria are facing genuine hardship as a result of having to meet their remediation obligations, whose situation could be considered within the intent of the Scheme. Some flexibility around eligibility should be considered in limited circumstances to accommodate these situations. Specific areas to consider include:

- There are former owner-occupiers who own a single property and are facing financial hardship due to seismic strengthening costs, but who are currently ineligible for the Scheme. This group includes people who bought their unit to live in, but were forced to vacate through force of circumstance. MBIE recommends options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme.
- There is at least one building that had been assessed as not earthquake-prone that was later reassessed as earthquake-prone. Some people bought into the building after the cut-off date for the Scheme and are not eligible, despite purchasing based on information that the building was not earthquake-prone. Work is needed to understand the extent to which owners may have purchased units after the cut-off date, in buildings that have been reassessed as earthquake-prone. MBIE recommends consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme,

particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase.

- Some ineligible owners felt they should be eligible for the scheme, and sought clarity on whether discretion by the Chief Executive of Kāinga Ora to grant a loan might apply to them. The Review found that, while discretion was not intended to significantly widen the eligibility criteria outside the original intent, it would be useful to clarify and provide guidance on situations where the Kāinga Ora Chief Executive's discretion may be appropriate.

Application process

The Review found that there are significant barriers to owners reaching the application stage. Since the Scheme's launch in September 2020, no applications have been made (although 42 expressions of interest have been received). MBIE recommends simplifying and better aligning the application process with the stages of the remediation process, including:

- providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process
- considering removing the requirement for a credit check
- considering removing the requirement for a \$500 application establishment fee.

However, most of the barriers preventing people from applying relate to the wider remediation planning process and challenges beyond the Scheme's settings. These include:

- upfront costs – the significant costs needed to get a remediation plan in place (e.g. the cost of getting professional assessments and advice)
- capability – many residential ownership groups lack the capability to navigate a project as complex as remediation
- decision-making – it is difficult to make a decision whether to remediate, sell or demolish especially when not all owners agree, or have differing financial means
- engaging with contractors – some people have had bad and costly experiences with engineers
- lack of buy-in – many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in remediation now.

MBIE recommends further work is done to consider options for addressing these broader barriers to remediation in parallel with any potential changes to the Scheme.

Loan settings

The Review found that current loan settings appear to be consistent with the Scheme’s objective and the funding approved in Budget 2019. The limited data about per-unit strengthening costs received through the consultation process indicated that the current loan cap is appropriate where seismic strengthening is a viable option: fifteen of the nineteen respondents who provided data on their estimated remediation costs indicated costs at or below the maximum loan amount. The Review found that there are outliers where seismic strengthening is significantly more costly (e.g. heritage buildings), but that other support mechanisms should be explored for these specific circumstances. It may also be that some earthquake-prone buildings are not viable to seismically strengthen.

MBIE recommends further work to:

- consider options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE’s broader work to support compliance.
- consider the appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.
- understand the interaction between the Work and Income accommodation supplement and the Scheme
- consider options for supporting a range of remediation outcomes for buildings (including demolition or on-selling for redevelopment), particularly where seismic strengthening is not a viable option, while aligning with its scope and intent, and
- better understand the impact of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme’s objective.

Interest rate settings

The Review found that the current interest settings are aligned with the intent of the Scheme. The Scheme is a ‘lender of last resort’ that should not be considered in competition with the banks. Not charging interest through the Scheme would be costly for taxpayers with no provision for loan default and would inconsistent with the interest rate concessions appropriated in Budget 2019.

However, MBIE recommends exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin. MBIE also recommends modifying the communication around the interest rate, particularly the use of the term “low equity margin”, to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

Operating costs

The Review found that while no applications have been made to the Scheme, Kāinga Ora has still incurred operating costs because they have been working with potential applicants to get them ready to apply. The complexity of applicant circumstances and eligibility assessments have also required significant external and internal legal advice.

Kāinga Ora's 2020/21 actual spend is \$399,986 less than the amount agreed to in their renewed funding agreement in July 2021. This evidence suggests that Kāinga Ora is delivering the Scheme in a cost-effective manner.

However, there may be opportunities to improve the efficiency of the Scheme's operation even further. Because of the complexity of the barriers discussed in this report, Kāinga Ora is spending a significant amount of time assisting potential applicants through the remediation planning process, rather than just through the application process. Further work is needed to address the barriers identified in this report in order to enable Kāinga Ora to focus on promoting the Scheme and progressing applications.

There is also an opportunity to determine how the promotion of the Scheme can be improved further. To date, Kāinga Ora has relied on Wellington City Council and other unpaid channels to promote the Scheme.

Recommendations

MBIE recommends the following matters be considered, in response to the 12-month review of the Residential Earthquake-prone Building Financial Assistance Scheme:

1. Options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme.
2. Consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme, particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase.
3. Guidance is developed on situations where the Kāinga Ora Chief Executive's discretion may be appropriate.
4. Simplifying and better aligning the application process with the stages of the remediation process, including:
 - providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process
 - considering removing the requirement for a credit check.
 - considering removing the requirement for a \$500 application establishment fee.

5. Further exploration of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme's objective.
6. Further work to understand the interaction between the Work and Income accommodation supplement and the Scheme.
7. Exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin.
8. Modifying the communication around the interest rate, particularly the use of the term "low equity margin" be modified to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

MBIE recommends the following issues be considered by the broader earthquake-prone building work programme, in parallel with any changes to the Scheme:

9. The government's objectives for supporting remediation and compliance with the Earthquake-prone Building System, including potential outcomes outside the limited scope of the Scheme
10. Options for addressing the broader barriers to remediation, including but not limited to those that impact people's ability to apply for the Scheme
11. Options for supporting a range of remediation outcomes for buildings
12. Options for providing financial support (either loans or grants) for the range of costs associated with the remediation process
13. The appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.

Annex One: Summary of Review findings

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
Eligibility criteria	Applicants must be an owner-occupier of the unit for which the loan is being sought	<p>1. If investors cannot afford their contribution to seismic strengthening, they have the option to sell their property without losing their home.</p>	<p>1.1. Some previous owner-occupiers are now classified as investors and are ineligible for the Scheme. They are not traditional investors as they do not own other property and selling their residential earthquake-prone building unit with outstanding remediation obligations is not possible. They do receive rental income from their apartments, as the rental market for earthquake-prone units has been less affected than the market to sell.</p> <p>1.2. Several investors said that the Scheme's eligibility criteria do not provide for their circumstances. Some investors felt that they should be eligible for financial assistance.</p>	<p>1.1. The circumstances of some former owner-occupiers who only own a single property may be in scope of the intent of the Scheme. Kāinga Ora's Chief Executive's discretion could be used to accept applications from people in this situation.</p> <p>1.2. While a general widening of eligibility criteria to include investors would not fit with the Scheme's intent, scope and objective, there may be limited situations where owners who are no longer living in their units could be considered for the Scheme as discussed in Conclusion 1.1.</p>	MBIE recommends options are considered to allow flexibility on eligibility in limited circumstances where potential applicants to the Scheme do not meet the eligibility criteria but are experiencing genuine financial hardship that is in line with the intent of the Scheme.
	Applicants must be an owner-occupier of a unit that is within a building that is two or more storeys high and contains three or more household units (or is a household unit within a mixed use building), and in a high seismic risk area.	<p>2. There would be demand from owner-occupiers in high seismic risk areas across New Zealand.</p>	<p>2. Most respondents who engaged in the Review and who have sent expressions of interest in the Scheme are from the Wellington region. Some Territorial Authorities in high seismic risk areas in other parts of New Zealand commented that because of the particular kind of housing stock in their area, the number of buildings that fit the current eligibility criteria is limited.</p>	<p>2. There are good reasons why Wellington is most strongly represented in demand for the scheme, but other parts of the country should be monitored for interest. There are a number of possible explanations for the localised nature of issues faced by Wellington residential earthquake-prone building owners, also reflected in the targeted consultation. It is possible that the Scheme's settings are best suited to the circumstances of Wellington residents. It is also possible that the expressions of interest in the Scheme received so far are concentrated in Wellington because the region has more identified 'priority buildings' that pose a higher risk of being earthquake-prone due to their construction, type, use or location and have shorter remediation timeframes as a result. High engagement may also be due to a highly engaged lobby group in Wellington. MBIE will continue to monitor demand from other regions.</p>	No further action required.

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
	The unit must have been purchased before 1 July 2017.	3. Owners purchasing units after the cut-off date of 1 July 2017 would be fully aware of the new earthquake-prone building legislation, and therefore able to manage any financial risks. This is because from 1 July 2017, a new national system for managing earthquake prone buildings came into effect.	3. There is at least one building where people bought non-earthquake-prone apartments that have since been reassessed as earthquake prone. This building in Wellington was initially assessed as being at 83% NBS. Some owners purchased their units after 1 July 2017 under this premise. However, in 2021 the building was reassessed as earthquake-prone.	3. Work is needed to understand the extent to which owners may have purchased units after the cut-off date, in buildings that have since been assessed as earthquake-prone, and options for addressing this. Kāinga Ora's Chief Executive discretion is an option for addressing these circumstances.	MBIE recommends consideration is given to the appropriateness of the 1 July 2017 cut-off date for eligibility to the Scheme, particularly in cases where the building's earthquake-prone building status was unknown at the time of purchase
	Where an applicant does not meet the owner eligibility criteria, they are able to seek discretion from the Chief Executive of Kāinga Ora over the determination of hardship.	4. Applicants who do not meet the eligibility criteria are able to seek an exemption from the Kāinga Ora Chief Executive. The Chief Executive of Kāinga Ora has have discretion over matters such as illness/sickness, job loss and applications for loans above the maximum level.	4. Some respondents felt that there should be clarity on the criteria used by Kāinga Ora's Chief Executive to exercise discretion under the Scheme. This would help owners understand earlier on what circumstances they need to demonstrate to be considered (before investing more time and resources).	4. Further work is needed to clarify and provide guidance on situations where the Kāinga Ora Chief Executive's discretion may be appropriate. However, it is notable that those who expressed interested in this option were deemed investors as they were not owner-occupiers, and therefore not within the original intent of the scheme to support owner-occupiers.	MBIE recommends developing guidance on situations where the Kāinga Ora Chief Executive's discretion may be appropriate.
Application process	Applicants apply by completing an application form and providing the required documents, including: <ul style="list-style-type: none"> • A copy of the bank letter declining or conditionally approving a loan application, or evidence of significant financial hardship • A copy of pre- and post-remediation valuation of the building • Evidence of finalised or indicative levies required for the remediation work • A copy of building and works insurance certificates • A copy of the Works Contract. 	5. Owners will be in a position to obtain and supply all the information required to apply to the Scheme	5. There are significant barriers to owners reaching the application stage. Some of the barriers relate to Scheme settings, but most are broader barriers about the remediation process itself. Some respondents commented that the lack of certainty of funding to progress and pay for the information required to apply to the Scheme was a barrier to application. Some also felt that the information required to apply was a barrier because it was confronting or did not make sense. Kāinga Ora observed that it takes considerable time for an initial enquiry to result in a loan application because the remediation process is complex and application usually requires people to undertake other processes like an engineering assessment and coming to a consensus as a Body Corporate. Kāinga Ora also does not believe that the \$500 establishment fee per application is fit for purpose.	5. There are some issues with the application process to address. For example, MBIE received feedback that the application process is confusing and complicated, some requirements are confronting or unnecessary, and a multi-stage process would give some financial certainty earlier in the planning process, enabling progress. However, many of the barriers preventing people from applying relate to the wider remediation planning process and will need to be considered as part of a broader compliance strategy. Some of the barriers may be able to be addressed by changes to the application process itself. However, many of the barriers applicants face are outside the ability of the Scheme to address. MBIE will explore options for addressing these broader barriers to remediation. This could include better information and education, or a remediation service to support unit owners through the decision-making and application process.	<p>MBIE recommends that the application process for the Scheme be simplified and better aligned with the stages of the remediation process, including:</p> <ul style="list-style-type: none"> • providing provisional confirmation of eligibility (similar to a mortgage pre-approval) earlier in the process • considering removing the requirement for a credit check • considering removing the requirement for a \$500 application establishment fee. <p>MBIE recommends the following issues be considered by the broader earthquake-prone building work programme, in parallel with any changes to the Scheme:</p> <ul style="list-style-type: none"> • the government's objectives for supporting remediation and compliance with the Earthquake-prone Building

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
					<p>System, including potential outcomes outside the limited scope of the Scheme</p> <ul style="list-style-type: none"> options for addressing the broader barriers to remediation, including but not limited to those that impact people's ability to apply for the Scheme the appropriate mechanisms for delivering additional support, including through channels that already exist, as well as a possible remediation support service.
Loan settings	Loans are secured by a mortgage, charge or other security against a unit's record of title. Applicants must have building insurance in order to meet Kāinga Ora's loan security requirements.	<p>6. Building insurance (a Unit Titles Act requirement for bodies corporate), is a common condition that is tagged to mortgage-like loans. Such secured loans protect the Crown's interests by having security over the unit and are in line with bank requirements for loan security.</p> <p>7. It will be possible for most buildings for security to be registered against individual interests, and this is necessary to protect the Crown's investment. Most multi-unit buildings are owned through unit title structures, or other structures that make it possible for security to be registered against individual interests.</p>	<p>6. The requirement for building insurance is a barrier for many applicants who have been priced out by their insurers (both overseas and local providers). In some cases, local insurers have simply declined to insure earthquake-prone buildings. Respondents also said that it may be challenging to get building insurance even after a building is remediated as some insurers said they will not provide cover for buildings assessed at less than 67% NBS.</p> <p>7. The current settings make accessing the Scheme difficult for buildings with company share structures with unregistered occupancy licenses. A respondent from one building said that the current settings around providing loan security make it difficult for owners in their building that is owned through a company share structure with unregistered occupancy licences to access the Scheme.</p>	<p>6. There is a broader issue of building insurance becoming unaffordable. Further work is required to better understand the impact that this broader issue of unaffordable building insurance has on the Scheme's objectives, including whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme's objective.</p> <p>7. The requirement for providing loan security is still in line with the Scheme's intent, and affected owners are likely to have options available to them to meet this requirement (e.g. to register their occupation licences or change their ownership structure).</p>	MBIE recommends further exploration of the requirement for building insurance, and whether flexibility regarding the requirement for applicants to have building insurance in some circumstances would be in line with the Scheme's objective.
	<p>Loans are repayable:</p> <ul style="list-style-type: none"> On the unit's sale 12 months after the last owner's death 	<p>8. A loan is the appropriate form of financial assistance. Budget 2019 approved funding for lending assistance for affected unit owners in residential earthquake-prone buildings as a deferred payment loan with a below market rate of interest. This</p>	<p>8. Some respondents felt that the Scheme should provide a grant instead of a loan. A significant number of respondents said it is not fair that Wellington property owners have to pay to strengthen their buildings when there have been other instances</p>	<p>8. The design of the Scheme as a loan is consistent with the Scheme's objective and the funding approved in Budget 2019. It is likely that a non-repayable grant would need to be at a much lower financial level and would not adequately address the</p>	MBIE recommends considering options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE's broader work to support compliance.

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
	<ul style="list-style-type: none"> If the owner is no longer an owner-occupier, or If the borrower defaults. 	<p>avoids contention around the role of government in body corporate decisions and creating additional ongoing Crown obligations.</p>	<p>where public safety was a concern, where public money was freely spent to address it (e.g. prohibited firearm buy-back scheme, Wellington City Council public safety fund, Christchurch earthquake recovery programme).</p>	<p>affordability issues facing affected unit owners. A grant also involves a transfer of taxpayer funded wealth to private property owners. This would be inequitable for those who have already strengthened their buildings. However, in some circumstances grants may be a useful tool in providing for some of the up-front costs that are currently barriers to application for the scheme. This would be outside the current scope of the Scheme, but could be explored as part of MBIE's broader work to support compliance.</p>	
	<p>Loans are only for direct seismic retrofit construction costs (up to 100% NBS), costs for reinstatement up to current Building Code requirements, engineering costs related to an agreed repair plan, and other costs that may be required by regulation (e.g. fire safety upgrades and upgrades for people with disabilities).</p>	<p>9. Providing for the cost of seismic retrofit construction costs is an appropriate scope for a loan through the Scheme. This was designed to reflect the Scheme's objective to help owner-occupiers in residential earthquake-prone buildings in high seismic risk areas who are facing financial hardship in meeting the costs of their earthquake strengthening obligations, to strengthen and retain their homes.</p>	<p>9. Some respondents feel the Scheme should provide for some of the significant necessary costs incurred before remediation (e.g an engineering assessment), and relocation, temporary accommodation or storage costs where remediation plans require occupants to relocate for the duration of construction. Several respondents said they would need financial aid to afford alternative accommodation in these instances.</p>	<p>9. The scope of costs provided for is designed to be consistent with the Scheme's objective. MBIE's work on options for addressing broader barriers to remediation can consider whether it may be appropriate for government to provide support for these costs, and what would be the best vehicle for this support.</p>	<p>MBIE recommends considering options for providing financial support (either loans or grants) for the range of costs associated with the remediation process, as part of MBIE's broader work to support compliance.</p>
	<p>A person who receives a loan under the Scheme cannot get an accommodation supplement from Work and Income.</p>	<p>10. The ineligibility for a Work and Income accommodation supplement resulting from a successful loan application is not an issue.</p>	<p>10. Under section 66(1)(c) of the Social Security Act 2018, no person is eligible for an accommodation supplement if their accommodation costs include mortgage payments, required to be made under a mortgage security to Kāinga Ora or the Crown in right of Te Puni Kōkiri, that the Ministry of Social Development believes are required to be made at a concessionary rate. Some respondents feel that this is problematic because people receiving the supplement need as much financial assistance as they can get. One respondent said that it is difficult enough to pay their existing mortgage while receiving a benefit and that without it, they will be unable to pay their current mortgage, let alone the additional cost of a loan through the Scheme.</p>	<p>10. Further work is needed to understand the interaction between the Work and Income accommodation supplement and the Scheme, and what a good outcome might be.</p>	<p>MBIE recommends further work to understand the interaction between the Work and Income accommodation supplement and the Scheme.</p>

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
	Loans are for up to a maximum of \$250,000. The Chief Executive of Kāinga Ora has limited discretion to approve amounts above this on a case-by-case basis.	11. The maximum loan amount available per unit is appropriate. The Chief Executive of Kāinga Ora has limited discretion to approve amounts above this on a case-by-case basis. The maximum loan amount available per unit fits within the Budget envelope and means at least 50 loans could be issued, according to the estimates from MartinJenkins.	11. Some respondents feel the funds available to loan are insufficient to support remediation costs. Low or fixed income owners said they cannot afford remediation, even if they are able to access the \$250,000 provided by the Scheme, as this is not enough to cover the costs incurred in the remediation journey (e.g. professional assessments of the building prior to remediation). However, fifteen of the nineteen respondents who provided data estimated their remediation cost indicated costs at or below the maximum loan amount. There are exceptional cases where remediation will be significantly more costly. There are also instances where some buildings are not economically viable to remediate through seismic strengthening, even to the minimum threshold of 34% NBS. In some cases, the best remediation outcome may be for the building to be demolished or sold on for redevelopment. It is notable that owners seem very reluctant to come to a remediation decision to sell or demolish their building.	11. The current loan cap is appropriate where seismic strengthening is a viable option. However, the way that the Scheme's settings currently focus on strengthening buildings potentially over-incentivises seismic strengthening, which may be sub-optimal outcome for owners of some buildings. Further work is required to consider how to support a range of remediation outcomes for buildings, while aligning with its scope and intent.	MBIE recommends considering options for supporting a range of remediation outcomes for buildings as part of MBIE's broader work on options for addressing broader barriers to remediation.
Interest rate settings	The interest rate for the Scheme is set as a below market rate. It is fixed for five years with rate reviews at loan anniversaries. Interest rates are calculated daily and compound annually.	12. An interest-free loan would be an implicit subsidy to private property owners and provides no incentive to repay, which would not be fair to taxpayers.	12. Some respondents felt that being charged interest and a low equity margin is not fair. Some also said that the way the interest rate is explained is confusing and can be difficult for laypeople to calculate themselves. InnerCity Wellington also said that the low equity margin is unreasonable and inequitable in because it ignores the fact that the debt is only taken on by owners to meet government-imposed compliance costs that banks refuse to fund.	12. The interest rate settings are in line with the intent of the scheme. The Scheme should not be considered in competition with the banks as it was designed as a 'lender of last resort'. While the discounted interest rate is higher than the interest rates offered to low and medium risk borrowers, eligible unit owners have the additional benefit of not being required to pay back the loan or interest until the unit owner sells the unit, rents out the unit or passes away. If the banks were willing to lend to eligible owners they would be charging higher interest rates than what the Scheme provides.	MBIE recommends exploring whether there is a simpler way to calculate interest, including reconsideration of the role of the low equity margin. MBIE also recommends that the communication around the interest rate, particularly the use of the term "low equity margin" be modified to improve how people engage with and perceive the Scheme as a below market interest rate, deferred payment, and a loan of last resort.

	Current setting	Rationale and assumptions underpinning the setting	What we learned through the Review	Conclusion	Recommendations
				<p>There may be ways to clarify the settings for potential applicants. MBIE will work with the Treasury to determine if there is a simpler way to calculate interest.</p> <p>The communication around the interest rate, particularly around the use of the term “low equity margin” can also be modified to improve how people engage with and perceive the Scheme.</p>	

Earthquake-prone Building System

Targeted Consultation Summary

October 2021

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Introduction

The Building (Earthquake-prone Buildings) Amendment Act 2016 established the current earthquake-prone building system, which mandates territorial authorities to identify, and building owners to remediate earthquake-prone buildings within statutory timeframes.

The Ministry of Business, Innovation and Employment (MBIE) sought to hear from stakeholders to inform the 12-month review of the Residential Earthquake-prone Building Financial Assistance Scheme (the Scheme) and to identify and understand barriers that earthquake-prone building owners face when trying to reach compliance under the earthquake-prone building system.

MBIE consulted with three targeted stakeholder groups, each whom have different obligations under the earthquake-prone building system and implementing the Scheme:

- **Residential earthquake-prone building unit owners** – have obligations to remediate their buildings (through seismic strengthening, or demolition), some are experiencing difficulty in making remediation plans to meet their obligations under the Building Act 2004 to collectively remediate the residential earthquake.
- **Territorial authorities** – must identify earthquake-prone buildings within specific timeframes based on seismic risk, they are empowered with enforcement tools if earthquake-prone building owners do not remediate before the deadlines on their earthquake-prone building notice.
- **Kāinga Ora** – implements the Scheme and has been engaged with residential earthquake-prone building owners who have expressed interest in the Scheme.

MBIE undertook targeted stakeholder consultation through July to August 2021. The consultation approach was three-fold:

- A separate survey was sent to select urban and rural territorial authorities in high seismic risk areas to understand whether the Scheme settings are suited for earthquake-prone building owners in their area, what the range of strengthening costs is in their area, and what assistance programmes they are offering to help people remediate³.
- A survey was sent to earthquake-prone building unit owners, and representative groups⁴ to better understand the financial challenges that owners face in remediating.
- MBIE conducted interviews with earthquake-prone building unit owners who were identified by Kāinga Ora through the expression of interest process for the Scheme, and who were willing to be contacted by MBIE to give their feedback.

Summary

Residential earthquake-prone building unit owners (currently localised to Wellington) face significant barriers to reaching compliance under the earthquake-prone building system. The greatest barriers are faced collectively as residential earthquake-prone building ownership groups (mostly bodies corporate) trying to determine a viable remediation plan for their building.

³ Of those surveyed, Manawatu District Council, Napier City Council, New Plymouth District Council, Wellington City Council, Hutt City Council, and Southland District Council responded.

⁴ InnerCity Wellington, Property Council New Zealand, and the Body Corporate Chairs Group

Background

A majority of residential earthquake-prone building owners surveyed were not confident they would be able to complete remediation prior to their earthquake-prone building notice's deadline. A majority of the owners reflected that while they had engaged with engineers, they had stalled in considering their options for remediation, some ownership groups had been stuck on this step for many years.

Most of the barriers preventing people from applying relate to the wider remediation planning process and challenges beyond the Scheme's settings. These include:

- **upfront costs** – the significant costs needed to get a remediation plan in place (e.g. the cost of getting professional assessments and advice)
- **capability** – many residential ownership groups lack the capability to navigate a project as complex as remediation
- **decision-making** – it is difficult to make a decision whether to remediate, sell or demolish especially when not all owners agree, or have differing financial means
- **engaging with contractors** – some people have had bad and costly experiences with engineers
- **lack of buy-in** – many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in remediation now.

This targeted consultation report will inform the 12-month review of the Scheme and further work by MBIE to understand the wider barriers faced by residential earthquake-prone building owners.

Earthquake-prone Building Owners

Residential Earthquake-prone Building Unit Owners

Online Survey

A survey (open from 22 July to 18 August 2021) was sent to earthquake-prone building unit owners and representative groups to better understand the financial challenges that owners face in remediating. Survey respondents were encouraged to forward the survey on to their networks of other residential earthquake-prone building unit owners. This is known as a 'snowball sampling methodology', and it can lead to pockets of high engagement amongst mature stakeholder networks.

MBIE focused on residential earthquake-prone building unit owners as there has been substantial feedback from this cohort regarding their difficulties to make viable remediation plans to meet their obligations under the earthquake-prone building system.

The purpose of the online survey was to seek information from earthquake-prone building owners on the following:

- what barriers do they have to applying for the Residential Earthquake-prone Building Financial Assistance Scheme
- whether and when they plan to put through an application
- what broader barriers do they face to completing remediation.

1.1.1. Summary of survey responses

Respondents

MBIE received 83 responses to the online survey. The type of respondents can be split into six categories:

TABLE 1

TYPE OF SURVEY RESPONDENT

OWNER-OCCUPIER OF AN EARTHQUAKE-PRONE BUILDING UNIT	(Owner-occupiers)	32
OWNER OF AN EARTHQUAKE-PRONE BUILDING UNIT OCCUPIED BY SOMEONE ELSE	(Owner-investors)	35
PREVIOUS OWNER OF AN EARTHQUAKE-PRONE BUILDING UNIT	(Previous owners)	5
ANSWERING ON BEHALF OF AN EARTHQUAKE-PRONE BUILDING OWNER REPRESENTATIVE GROUP	(Representative)	4
OWNER OF MULTIPLE PROPERTIES (ALL OR SOME OF THEM ARE EARTHQUAKE-PRONE BUILDINGS UNITS)	(Owner-investor of multiple properties)	3
NEVER OWNED AN EARTHQUAKE-PRONE BUILDING UNIT	N/A	5

Earthquake-prone Building Owners

Respondents represented a good distribution of owner-occupiers and investors. As the targeted consultation focused on owners of earthquake-prone buildings, survey respondents who have never owned an earthquake-prone building were not asked any questions beyond disclosing their ownership status.

Location

The majority of survey respondents (60) indicated that their earthquake-prone building was located in Wellington and Wellington City Council was their territorial authority. MBIE had endeavoured to get respondents representing high seismic risk areas across New Zealand. Despite MBIE's efforts and territorial authorities sharing the survey to earthquake-prone building owners in their district, there was only a small minority of respondents that were outside the Wellington region (3).

Ownership structure

Buildings with multiple owners can have various ownership structures. Different ownership structures can have different implications for the owners and the building. For example, if a building is a unit title property, the body corporate must have the property insured under the Unit Titles Act 2010. Ownership structures can have implications for how a building can progress remediation planning of an earthquake-prone building, with some models creating additional complexity.

The majority of respondents to the survey indicated they were under a unit title structure (49), whereas company shares were less prevalent (5). In company share apartments, the land and the building are owned by a company. When purchasing a company share apartment, the buyer buys shares in the company and signs a license to occupy. All company share apartment owners are shareholders in the company, and some of them are also company directors. As with any company, it will have a constitution which states the rights and obligations of the shareholders.

With company shares it is common that buyers need to be approved by company directors, and banks may only be willing to loan where there is a higher loan to value equity. Some company share constitutions have specific rules, such as only owner-occupiers can purchase into the company. These rules can restrict potential buyers and impact the market for company share apartments. Banks are often willing to lend less for company share apartments due to the more limited market for these units, which could impact a bank's ability to recover their funding in the case of a mortgagee sale. This may also limit lending available for an earthquake-prone building's remediation project from banks.

The least common ownership structure was cross-lease (4). A cross-lease is where multiple individuals own an undivided share of land and a lease for part of the land/building. Historically, cross-leases were a popular form of dividing land for land owners and avoiding certain subdivision restrictions. Cross-leases became uncommon after the Resource Management Act 1991 made significant changes to subdivision laws and practices, and cross-leases were no longer a way to avoid subdivision requirements and additional costs. The four respondents that indicated they are in a cross-lease ownership structure are within the same building.

Twenty respondents did not indicate their ownership structure.

Remediation deadlines

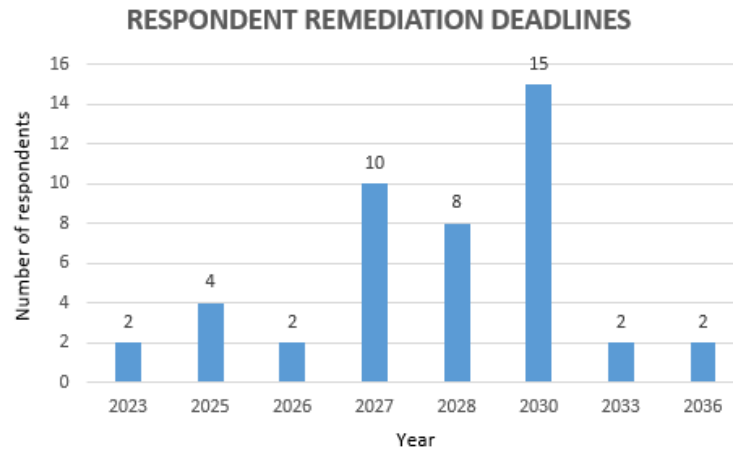
When a building is confirmed as an earthquake-prone building it receives an earthquake-prone building notice that specifies a date that the building must be remediated by, either through seismic strengthening work or demolition. Wellington City Council proactively identified earthquake-prone buildings under the previous earthquake-prone building system, and these notices were transitioned into the current system. This means earthquake-prone buildings in Wellington have remediation deadlines that expire sooner than earthquake-prone buildings in other high seismic risk areas in New Zealand.



Figure 1

Earthquake-prone Building Owners

Figure 2



Respondents indicated that their remediation deadlines varied from 2023 to 2036. Thirteen respondents didn't know what their remediation deadline was and 20 respondents didn't disclose their remediation deadline.

There was a cluster of respondent's remediation deadlines between 2027 and 2030. This aligns with Wellington City Council data (provided to MBIE in 2020) which showed over 240 earthquake-prone building notice remediation deadlines in Wellington expiring in 2027 (at least 40 of which are residential earthquake-prone buildings).

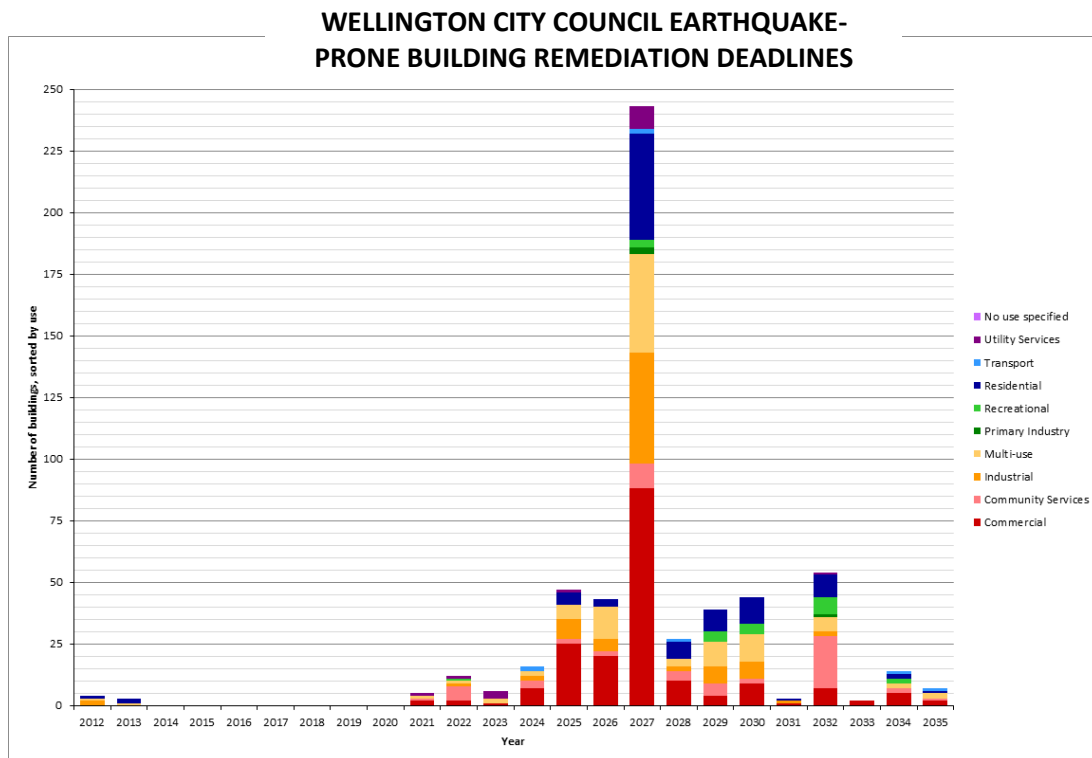


Figure 3

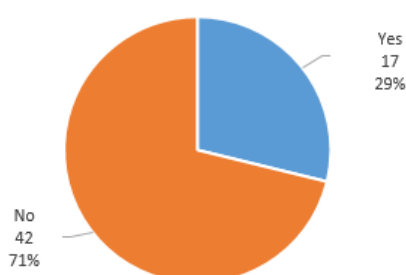
Confidence of reaching compliance prior to their remediation deadline

Earthquake-prone Building Owners

MBIE asked respondents if they thought they would complete their remediation by their statutory deadline. Of fifty-nine respondents, the majority (71 per cent) indicated that they did not think they would meet their obligations to remediate prior to their deadlines. Only seventeen (29 per cent) respondents thought they would complete remediation (through seismic strengthening or demolition) before their deadline.

Figure 4

DO RESPONDENTS THINK THEY WILL COMPLETE REMEDIATION BY THE STATUTORY DEADLINE?



MBIE asked respondents why they thought they wouldn't be able to complete remediation and received feedback that highlighted some of the barriers they face.

Owner-occupiers and owner-investors alike were most concerned about the following:

- Seismic strengthening work is unaffordable or economically unviable.
- Taking on substantial debt in retirement.
- Complex decision making required by different owners with different circumstances.
- Inability to engage with professional services such as engineers.

Having similar issues emerge from both owner-occupiers and owner-investors is expected. This is because many earthquake-prone buildings have a mix of owner-occupiers and tenanted units. Therefore, they must undertake remediation planning collectively, so the barriers faced by some owners will impact the whole earthquake-prone building ownership group's ability to completing the remediation of their building.

Some respondents indicated they intend to sell their earthquake-prone building 'As Is' to property developers. Technically they will still be passing the obligation to remediate, but it is expected that developers may comply through demolition and redevelopment rather than strengthening. Earthquake-prone buildings can be legally tenanted until their earthquake-prone building deadline expires, which means until such time rental income can accrue and this may deter demolition or redevelopment until after the deadline has lapsed.

Progress planning remediation

MBIE asked respondents if they had started planning or undertaking their remediation projects. The majority (44) indicated that they had engaged with an engineer and were considering their options. This is expected as building owners have to engage with an engineer to undertake an engineering assessment before their building is confirmed as earthquake-prone. It appears that it is at this step that many respondents' remediation progress stalls. Less than half the number of respondents indicated they had a remediation plan in place and were seeking finance (20) and only four respondents indicated that building work was underway. Eight respondents said that they had not progressed their remediation plans at all.

Earthquake-prone Building Owners

'Many options are being explored. None seem viable'
 Survey respondent

Remediation costs

Fifty-nine respondents provided answers outlining their estimated remediation cost. Some respondents answered with individual costs, while some gave the cost to remediate the entire building, without mentioning how many units were included. It is hard to determine if the Scheme's loan cap of \$250,000 per unit is insufficient for owner-occupiers in these earthquake-prone buildings. MBIE collated the costs into three categories:

INDIVIDUAL COST PER UNIT	NUMBER OF RESPONDENTS	BUILDING REMEDIATION COSTS (INCL. RELATED EXPENSES)	NUMBER OF RESPONDENTS	BUILDING REMEDIATION COSTS (EXCL. ADDITIONAL EXPENSES)	NUMBER OF RESPONDENTS
\$60,000 (34%NBS)	1	\$500,000	1	\$250,000	1
\$105,000	1	\$1,920,000	1	\$2,000,000 (34%NBS)	1
\$120,000 (67%NBS)	1	\$2,000,000	3	\$2,212,000 (34%NBS)	1
\$170,000	9	\$2,500,000	1	\$4,000,000	2
\$200,000	2	\$6,000,000	2	\$4,850,000	1
\$250,000	1	\$7,500,000	1	\$11,000,000	2
\$350,000 (includes weather-tightness remediation)	1	\$8,000,000	1		
\$375,000	1	\$9,700,000	1		
\$750,000	1	\$20,000,000	1		
\$900,000	1				
Average: \$255,000		Average: \$5,676,667		Average: \$4,914,000	

Some respondents didn't know the costs of their remediation yet. When specified, the expected post-remediation New Building Standard percentage score (NBS %) has been noted. Some costs provided included GST and some did not, so for consistency MBIE added GST to the GST exclusive costs.

Many estimates included the cost of fixing other building issues, such as deferred maintenance and weather-tightness issues, which are outside of the scope of the earthquake-prone building system, and the Scheme. MBIE has included these figures, as those additional costs contribute to remediation through seismic strengthening. The additional costs may influence building ownership groups to conclude that an earthquake-prone building may be not economically feasible to remediate through seismic strengthening, or the costs may further complicate decision-making required to decide on the best compliance pathway.

Earthquake-prone Building Owners

One previous owner-occupier had sold their building ‘As Is’ because remediation was going to be over \$32 million (which included weather-tightness issues). This highlights the reality that some earthquake-prone buildings are not viable to remediate through seismic strengthening. Earthquake-prone building owners reflected on this being an extremely difficult decision to come to. Outliers where remediation costs were multiple times more to that the average were predominately heritage-listed earthquake-prone buildings, which are limited in their remediation options as they do not have the option to consider demolition (though they do have the option to collectively sell the building ‘As Is’).

Barriers

MBIE asked respondents what barriers they faced to remediate their building, and to rank the barriers from biggest to smallest. Respondents could select all barriers that applied to their situation.

Finance was the most common barrier with 95% of respondents indicating this is the biggest barrier overall.

WHAT BARRIERS DO YOU FACE IN REMEDIATING YOUR BUILDING BY THE STATUTORY DEADLINE

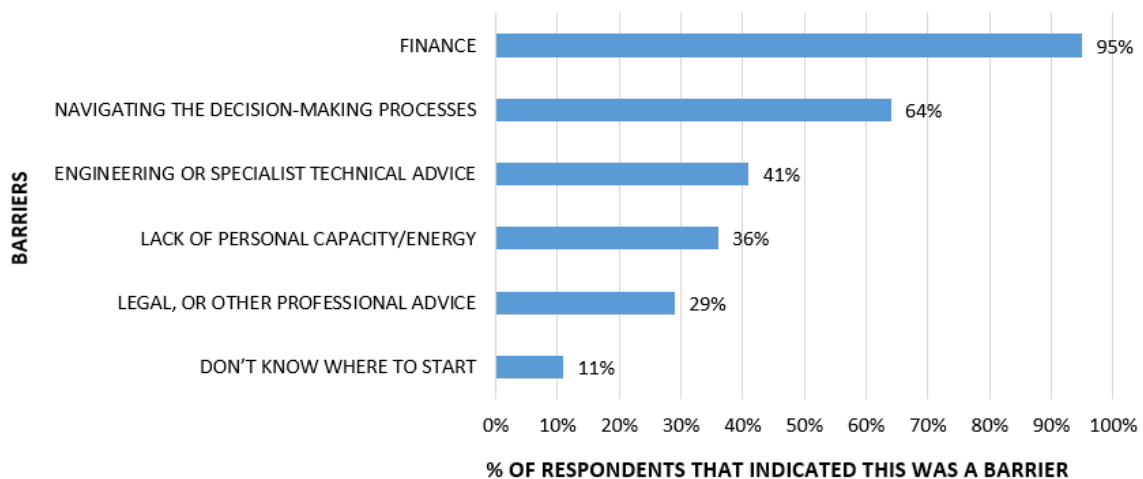


Figure 5

Navigating the decision-making processes was the second most common with 64% of respondents indicating this was a barrier.

‘This is a nightmare to navigate, but hiring a company to offer end to end management is obscenely expensive.’
 Survey respondent

MBIE asked respondents to expand on the barriers they face remediating their earthquake-prone building, especially if there were barriers left out from the previous questions. MBIE received 47 written responses that highlighted other barriers, including:

- **Regulatory uncertainty** – concerns about whether standards will change, respondents reporting hopes that the government will remove their obligations to remediate, or fears that the minimum threshold will be increased in the future, risking that they will have to remediate again in the future.
- **Relocation costs and disruption** – due to the constrained housing market, respondents aren’t sure where they will be able to afford or find alternative accommodation while the remediation work is undertaken.

Earthquake-prone Building Owners

- **Insurance** – some respondents are unable to obtain affordable insurance for their earthquake-prone building, some have opted out of earthquake related cover all together. Applicants for the Scheme must have insurance, in order to meet Kāinga Ora’s loan security requirements. This makes them unable to access the Scheme’s loans currently offered through Kāinga Ora.
- **Other building issues** - co-existing building issues and ownership structures triggering other compliance requirements.
- **Former owner-occupiers who had to vacate their unit by force of circumstance** – respondents who were owner-occupiers and had to move on for genuine reasons, but are unable to sell their units with as an earthquake-prone building with remediation work pending. Now with tenants in their units, they cannot access to the Scheme’s loans as they are technically investors.
- **Heritage buildings** – heritage-listed buildings do not have the option to reach compliance through demolition, but seismic strengthening for heritage buildings can involve additional complexity and costs.
- **Lack of buy-in** – many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in planning remediation now.

Support

MBIE asked respondents what sort of help would be the most beneficial to helping them reaching compliance prior to their remediation deadlines.

WHAT WOULD BE THE MOST HELPFUL FOR YOU IN MEETING YOUR EARTHQUAKE-PRONE BUILDING REMEDIATION STATUTORY DEADLINE?

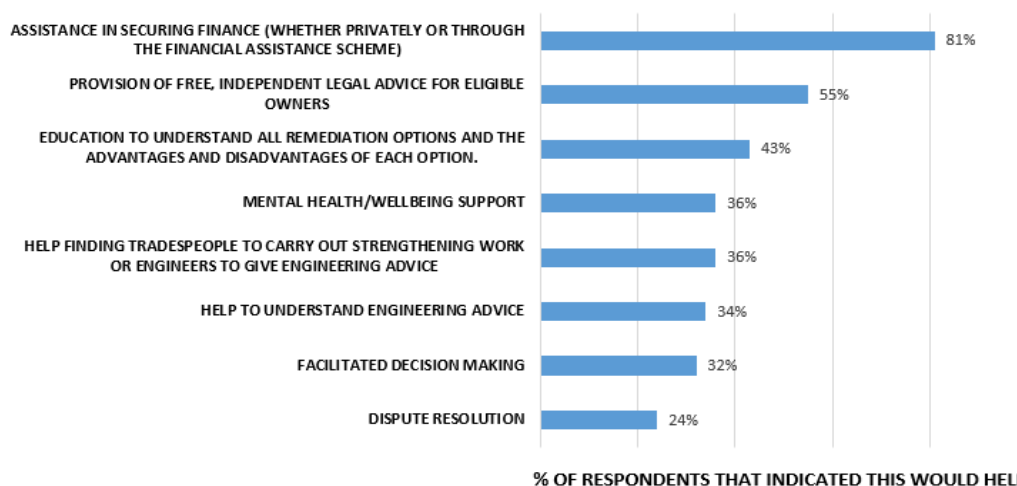


Figure 6

MBIE asked respondents if there was any other form of support that would help them to remediate their earthquake-prone building. MBIE received 35 written responses that outlined what support mechanisms respondents felt were not covered above (in Table 4). These included:

- **Greater financial support** - grants instead of loans, interest-free loans, alternative accommodation supplements, compensation if owners chose to demolish their buildings, relief from paying GST on remediation project costs.
- **Affordable insurance** – many respondents have not been able to obtain affordable insurance to cover their earthquake-prone building for earthquake damage, this negatively impacting their ability to access finance and the building’s market value. Some respondents indicated that affordable insurance will be

Earthquake-prone Building Owners

not available to earthquake-prone buildings even if they were to be remediated through seismic strengthening.

- **Remove other regulatory obligations** - let seismic strengthening proceed without triggering other compliance issues such as accessibility and fire systems.
- **Exemptions under the earthquake-prone building system** – remove the requirement for residential earthquake-prone buildings to be identified and remediated under the Building Act 2004 as respondents do not believe their building presents a life safety risk, or if it does they should be able to elect to take that risk and remaining living in it.

Awareness of the Financial Assistance Scheme

MBIE asked respondents if they were aware of the Financial Assistance Scheme. Awareness was high with eighty-two per cent of respondents indicating they were aware of the Residential Earthquake-prone Building Financial Assistance Scheme. Respondents indicated they had heard about the Financial Assistance Scheme through:

- Their body corporate, or ownership group (28)
- Territorial authority (6)
- Web search (2)
- Kāinga Ora (1)
- Other:
 - Media/news (4)
 - InnerCity Wellington (3)
 - Local Member of Parliament (2)

Expressions of Interest

Despite high awareness, only twenty four per cent of respondents had submitted an expression of interest. Respondents were asked why they hadn't expressed interest in the Financial Assistance Scheme and respondents were able to select as many options that applied to them. The answers fell into four main categories:

INELIGIBLE (TOTAL 36)	DON'T REQUIRE FINANCIAL ASSISTANCE (TOTAL 17)	INTEND TO APPLY IN THE FUTURE (TOTAL 11)	OTHER (TOTAL 15)
My unit was purchased after 1 July 2017 (15) I am not a unit owner-occupier (8) I am not a NZ citizen or permanent resident (1) My building is not insured (1)	I don't need to use the Financial Assistance Scheme (6) Seismic strengthening isn't a viable option (2) Able to finance remediation through other means (9)	I plan to apply for assistance closer to my remediation deadline (1) I am not in a position to be ready to apply (6) Not up to this point in the process (4)	I don't want to take on a loan (8) The interest rate is too high (4) The application process is too difficult (3)

Table 3

Applications

MBIE also asked survey respondents why they hadn't progressed an application for Financial Assistance Scheme:

Earthquake-prone Building Owners

- The interest rate is too high (3)
- I am unable to get consensus among the body corporate to progress remediation plans (3)
- I am in the early stages of planning process (3)
- I am not a NZ citizen or permanent resident (1)
- I am not a unit owner-occupier (2)
- Other (6)

These responses are similar to the reasons given to the above question about why respondents hadn't expressed interest in the Financial Assistance Scheme. Respondents were asked to elaborate on other reasons for not progressing applications. Two respondents noted that their company share apartment building failed to meet the loan security requirements required by Kāinga Ora. Two respondents were in the process of processing an application and another respondent didn't want to go into debt post-retirement.

Closing feedback submitted by survey respondents on the Financial Assistance Scheme has been summarised with the other qualitative feedback accrued through the targeted meeting feedback outlined in section 1.2 (Table 4) below.

Targeted meetings with earthquake-prone building owners

MBIE engaged with earthquake-prone building owners over a series of face-to-face meetings over the first week of August 2021. MBIE identified candidates for owners and ownership groups of residential earthquake-prone buildings that had expressed interest in the Financial Assistance Service received by Kāinga Ora. A Kāinga Ora representative also attended the meetings.

A standard format for each meeting was followed to ensure consistency for identification of common themes from the meetings.

MBIE sought to understand:

- Whether and when they plan to put through an application for the Financial Assistance Scheme.
- What barriers they have to applying for the Financial Assistance Scheme.
- What broader barriers they face in completing remediation.

MBIE had seven meetings with 11 residential earthquake-prone building unit owners across five earthquake-prone buildings in Wellington. Many were at various stages of the remediation process.

Themes

MBIE has identified themes that emerged from the meetings with earthquake-prone building owners and the online survey.

THEMES	COMMENTARY
BARRIERS TO REMEDIATION PLANNING (PRE-APPLICATION)	
<i>Upfront costs</i>	<p>There are significant costs to getting a remediation plan in place, some owners can't afford to meet these costs, let alone the seismic strengthening costs.</p> <p>Many unit owners are on fixed income have no ability to meet the increasing costs born from planning remediation project.</p> <p>The cost of getting the professional assessments and advice while planning for remediation (in the lead up to application) is significant.</p>

Earthquake-prone Building Owners

<i>Capability</i>	<p>Many ownership groups lack the capability to navigate a project as complex as remediation and are reluctant to hire professional expertise to assist them with their remediation planning.</p> <p>Many earthquake-prone building owners are reliant on the abilities of the owners that happen to buy into the building. One building owner compared it to an unpaid job, spending up to twenty hours a week on remediation planning.</p>
<i>Decision making</i>	<p>It is difficult to make a decision (whether to remediate, sell or demolish) especially when not all owners agree, or have differing financial means.</p>
<i>Engaging with contractors</i>	<p>Building ownership groups have had bad experiences with engineers, which has cost them time, money and goodwill in their remediation journey. There have been instances when engaging with different engineers has resulted in conflicting advice.</p>
<i>Lack of buy-in</i>	<p>Many owners do not believe their building poses a life safety risk, or believe that the regulatory settings will change and are unwilling to make the investment in remediation now.</p> <p>Many don't trust the methodology to identifying their building as earthquake-prone and are happy to 'take the risk' of continuing to live in their earthquake-prone building without undertaking remediation.</p>
FEEDBACK ON THE FINANCIAL ASSISTANCE SCHEME	
<i>Eligibility criteria</i>	<p><i>Purchased before 1 July 2017</i></p> <p>The eligibility deadline excludes people who bought apartments after 1 July 2017 that were assessed not earthquake-prone, but have since been reassessed as earthquake-prone. MBIE has learned of at least one building where people bought (after the 2017) into an apartment building that had been assessed and determined to be not earthquake-prone that has since been reassessed as earthquake prone.</p> <p><i>Exclusion of investors</i></p> <p>Some investors that were originally owner-occupiers have moved out and state that they cannot afford seismic strengthening and cannot opt to sell apartments, leaving them 'stuck' with earthquake-prone building units. However, because they have tenants they are not eligible for financial assistance as they are deemed investors.</p> <p style="text-align: center;"><i>'Not investors, but genuine ex-residents' – Survey respondent</i></p>
<i>The application process</i>	<p>Some potential applicants found the need to go to the bank to receive a confirmed rejection demeaning and an embarrassing way to prove their need for financial assistance.</p> <p>Some said the application process is out of step with the way construction projects typically progress. The full costs of strengthening are generally not known until the end of the planning process once detailed designs are completed, consented and costed. People need some certainty regarding access to finance prior to this point.</p>
<i>Loan settings</i>	<p><i>Insufficient support</i></p> <p>Many people want grants, and do not want to take on debt to meet their obligations under the earthquake-prone building system.</p> <p>The maximum loan amount of \$250,000, was considered insufficient to cover some owners' remediation costs. One heritage building was quoted up to \$950,000 per unit.</p>

Earthquake-prone Building Owners

	<p><i>Security requirements</i></p> <p>Company share ownership structure with unregistered occupation licenses fail to meet the loan security requirements of Kāinga Ora. This means owners who may otherwise be eligible cannot access the financial assistance unless they change their ownership structure, which they are reluctant to do.</p> <p>Owners reluctant to convert to a unit title structure are deterred from updating their ownership structure because of the cost associated (in addition to the costs incurred in planning and undertaking remediation).</p> <p><i>Insurance</i></p> <p>Many earthquake-prone buildings cannot obtain affordable insurance, and have decided to opt out of cover for earthquake related damage. This means that owners within these buildings are not eligible to apply for the Residential Earthquake-prone Building Financial Assistance Scheme, as they cannot meet the loan security requirements.</p> <p>Insurance companies and lenders are demanding a higher level of resilience than the earthquake-prone building system life safety minimum of 34% New Building Standard (typically quoted as 67%). This means that remediation via seismic strengthening to 34% does not guarantee insurance will be available at all, which will vastly impact its market value (post-remediation).</p> <p>Owners from two different buildings reflected that they are now solely reliant on the Earthquake Commission as their only insurance in the event of an earthquake given the current insurance market. Noting a building is only covered by EQ-Cover if they have private insurance that includes fire cover.</p> <p>MBIE was provided an example of an earthquake-prone building’s insurance for earthquake cover cost that increased from \$25,000 in 2014 to \$232,000 in 2021, when the owners chose to opt out due to the substantial cost.</p> <p><i>Relocation costs</i></p> <p>The scheme does not provide financial support for owners who may have to vacate their homes, store their items and find/fund alternative accommodation while seismic strengthening is undertaken.</p>
<p><i>Interest rate settings</i></p>	<p>Some owners do not believe paying interest is fair.</p> <p>Some have taken offence at the ‘low equity margin’ attached to the interest rate, as they have high equity in their homes, yet cannot get finance from a traditional lender.</p> <p>The equation to work out the below-market interest rate is overly complex.</p>
<p><i>Kāinga Ora Chief Executive discretion</i></p>	<p>Some respondents said clarity is needed on what the Kāinga Ora Chief Executive’s discretion relates to, specifically around the eligibility criteria. Those respondents said transparency on what criteria would be used to decide on applications for discretion would help potential applicants understand what circumstances they would need to demonstrate to be considered.</p>
<p>WIDER BARRIERS TO COMPLIANCE</p>	
<p><i>Heritage status</i></p>	<p>Earthquake-prone heritage buildings do not have the options to demolish as a means to reach compliance.</p>

Earthquake-prone Building Owners

	Heritage building present more complexity and often higher costs. One group of owners in an earthquake-prone heritage building reported having tried in earnest to pursue strengthening options that were rejected due to not meeting heritage requirements.
<i>Housing crisis</i>	The increasing cost of housing means that a number of earthquake-prone building unit owners reported that they would not be able to purchase another home in Wellington if they were to sell their earthquake-prone building unit, due to increasing disparity in between the market value of their property and other housing options.
<i>Regulatory uncertainty</i>	Some earthquake-prone building owners reported hoping that if they waited to remediate their earthquake-prone buildings there may be increased government support to help remediate their building (that they will then benefit from) or they may be relieved of their obligations to remediate. Other earthquake-prone building owners feared that if they remediate to the minimum standard, it might be increased in the future and their buildings won't be compliant with future regulatory standards.
<i>Mental health</i>	The majority of owners interviewed reported that they have found the process of understanding and planning for remediation, including coming up with their financial requirements, to be stressful, anxiety-inducing and overwhelming. Many owners feel trapped as they cannot sell their apartments (and recover their investment) and stuck.
<i>Unfairness</i>	Some earthquake-prone building owners reported that they don't think it's fair to pay full rates on a building that has decreased or no market value. Many owners felt it was unfair that they were expected to pay to ensure their building was safe, and felt they were being held responsible for earthquakes, something they had no control over. A number of owners have invested in property as part of their retirement plan, and feel distressed that their investment may not result in the "nest egg" they had anticipated as they head into retirement. Some interviewees noted that the earthquake-prone building remediation requirements have a disproportionately high impact on elderly people who have limited means to be able to recover from the financial burden of strengthening. While the Scheme offers a suspensory loan, which is repayable on sale of the unit or following the death of the owner, some unit owners felt it would be unfair that they would have a more limited 'legacy' to pass on to their families. In the event of negative equity, the remaining debt would not be pursued by Kāinga Ora.
<i>Remediation through seismic strengthening is not viable</i>	In some cases the cost to strengthen is not economically viable, and no amount of financial assistance will change this. For heritage buildings where strengthening is not viable, the only option available would be to sell 'As Is'.

Table 4

MBIE provided participating earthquake-prone building owners with written summaries of the meetings to allow them to make any changes or additions and asked them to confirm they were satisfied with how MBIE had captured their situations discussed at the meetings. All participants confirmed the MBIE summaries were accurate and reflected their situations.

Submissions from Earthquake-prone building owner representative groups

MBIE reached out to earthquake-prone building owner representative groups that had previously represented or advocated for earthquake-prone building owners. MBIE subsequently meet with Inner-City Wellington in July 2021 and received their written submission in August 2021.

Inner-City Wellington is a residents' association based in Te Aro, Wellington. Inner-City Wellington undertakes advocacy work on behalf of residential earthquake-prone building owners. Inner-City Wellington has been a highly engaged stakeholder group since the earthquake-prone building legislative reform was initiated following the Canterbury Earthquakes in 2011.

Their submission was consistent with their recent petitions and previous submissions on the development of the earthquake-prone building system and since its implementation. Where relevant to the scope and purpose of this targeted consultation, Inner-City Wellington's submission was integrated into the theme analysis in section 1.2 (Table 4).

MBIE would like to acknowledge Inner-City Wellington for sharing MBIE's online survey to their networks. This was very helpful in receiving fulsome information from earthquake-prone building owners in Wellington. MBIE did not receive feedback from the Body Corporate Chairs Group and Property Council NZ.

Earthquake-prone Building Owners

2. Kāinga Ora – Homes and Communities

Kāinga Ora – Homes and Communities (Kāinga Ora) is the delivery agent for the Residential Earthquake-prone Building Financial Assistance Scheme. In the year since the Scheme has been operational, MBIE and Kāinga Ora have been working closely on operational matters:

- Kāinga Ora provides MBIE with quarterly reports, MBIE briefs the Minister of Building and Construction on their progress.
- Monthly meetings to discuss Financial Assistance Scheme matters.
- Specific consultation on the 12 month review:
 - Kāinga Ora provided a written submission on barriers to applications and potential changes to the Financial Assistance Scheme, and
 - Meeting to discuss feedback in September 2021.
 - A representative from Kāinga Ora also attended all of the stakeholder interviews with residential earthquake-prone building unit owners undertaken for the purpose of this consultation.

While no applications have yet been received to the Financial Assistance Scheme, Kāinga Ora has been working with earthquake-prone building owners to get borrower-ready. Borrower-ready means they are in a good position to make a successful application.

In MBIE's conversations with many stakeholders, they reflected on how Kāinga Ora have been helpful and assisted broadly on their specific earthquake-prone building and how they might make a successful application.

Barriers to applications being made

Kāinga Ora provided MBIE with a comprehensive view of the barriers that residential earthquake-prone building owners faced in meeting the eligibility criteria and preparing an application. Their perspective is informed by conversations and efforts to get potential applicants borrower ready for the Residential Earthquake-prone Building Financial Assistance Scheme.

- **Previous owner-occupiers with tenants** - There are a group of former owner-occupiers that, through a change in living circumstances, no longer live in the earthquake-prone building and have their unit tenanted. They want to sell, and would sell if they could. But either they can't sell at all, or only at a price that would incur a significant loss, or result in negative equity. Conversely, the rental market for EPBs seems to have held up better than the re-sale market, so owners are able to rent out the unit, and cover much of their unit costs.
- **Insurance** - Kāinga Ora requires replacement insurance during and post remediation, which is aligned with bank requirements, so that the loan is secured. But it may be difficult/impossible to get affordable earthquake insurance even after the building is remediated. Clarity may be needed on how to proceed in the event that the building owners are unable to secure insurance during or post remediation. For example, building owners may elect to remediate to 34% NBS, but insurance won't provide cover at less than 67% NBS, or otherwise only provide cover at exorbitant premiums. Providing a loan without replacement insurance results in an unsecured loan – which Kāinga Ora is unable to do within the scheme settings.
- **Loan security** - The Scheme's settings require Kāinga Ora to take a high level of loan security. This obligation may result in Kāinga Ora declining to provide loans where Kāinga Ora cannot obtain an adequate security – say due to the ownership structure (unregistered occupation licences in a company share arrangement). This in turn could delay/prevent remediation of the building, or force some unit owners to sell their properties.
- **Uncertainty** - Many owners are uncertain if they should proceed with remediation now
 - Will the EPB requirements be relaxed?
 - Will the EPB standards be increased?
 - Will government support increase?
 - Will new building technologies drive remediation costs down?

Earthquake-prone Building Owners

- How do they know the right thing to do for the owners?
 - When is the right time to remediate? – disruption, costs & inconvenience of months-long alternative accommodation
 - Who is going to drive the remediation?
 - Will we be financially better off by waiting as long as possible?
- **Lack of knowledge** – Many residential earthquake-prone building owners feel ill-equipped to consider their options.
 - **Engineering assessment costs** - Significant costs involved in undertaking, often numerous, engineering assessments. Wellington City Council’s Building Resilience Fund has been discontinued.
 - **Escalating remediation costs** – because of Wellington’s maturity in identifying earthquake-prone buildings, there are some examples of cost estimates that have increased markedly since Body Corporates have started the remediation journey – noting this does not necessarily mean that the costs are exceeding the Financial Assistance Scheme’s per unit loan cap.
 - **Within one building owner-occupiers and investor-owners have different motivations** - often owner-occupiers get stressed, have a lack of expertise, and want to ‘fix it now’. Investors seem to be more motivated by costs and financial returns. They may not want spend the money now, preferring to wait to see if their obligations change, or more support is provided in the future.
 - **Not all owners have access to remediation funds** - All owners need to be able to fund their portion of the remediation cost. A single owner not being able to access funds can stop the remediation occurring, or at least significantly delay the remediation (while the body corporate works through options with the owners/s unable to access finance).
 - **Incorrect advice** - There have been instances of bodies corporate receiving professional engineering advice that was later found to be inadequate. There is a financial and a time cost to this happening, as well as the emotional effect.
 - **Stress** - The impact the remediation process on unit owners’ mental health cannot be overstated. Kāinga Ora have heard repeated mentions of the word “stress” from unit owners.

Earthquake-prone Building Owners

3. Territorial Authorities

MBIE sent a separate survey to select urban and rural territorial authorities in high seismic risk areas to understand whether the Scheme settings are suited for residential earthquake-prone building owners in their area. Manawatu District Council, Napier City Council, New Plymouth District Council, Wellington City Council, Hutt City Council, and Southland District Council responded. These urban and rural territorial authorities are mostly high seismic risk areas and to be likely actively engaging with earthquake-prone building owners that may require access to the Financial Assistance Scheme to comply with the earthquake-prone building system.

MBIE requested the following information:

Relevancy - Do you think the Financial Assistance Scheme settings are suited for owners of earthquake-prone buildings in your jurisdiction?

Costs - What are the strengthening costs associated with remediating earthquake-prone buildings in your area?

Support - What financial assistance programmes are you offering or planning to offer the earthquake-prone building owners in your area, to help them meet their remediation obligations?

Tenants - Do you think tenants in earthquake-prone building are informed and understand the status of the building they are living in?

Relevancy

A number of high seismic territorial authorities responded that they didn't have a specific records of residential earthquake-prone buildings in their district so couldn't easily retrieve the building owners data to forward the MBIE survey to, or drill down into the specific data regarding the costs associated with remediating earthquake-prone buildings in their area. Territorial authorities have until July 2022 to identify non-priority earthquake-prone buildings. Territorial authorities outside of the Wellington region also noted that their building typography means they are less likely to have residential earthquake-prone buildings, i.e. no older apartment buildings.

Wellington City Council felt that the criteria were too focused on individual unit owners' circumstances, rather than on what any given earthquake-prone building collectively requires to get their remediation planning underway. They suggested funding could be used to allow for costs prior to the construction work, such as engineering assessments and design concepts.

Costs

Many territorial authorities were not able to provide cost breakdowns for earthquake-prone building remediation projects as they do not hold building consenting data alongside the register of earthquake-prone building register. Manawatu District Council quoted that costs had ranged from \$50,000 and \$1.5m and Wellington City Council provided MBIE with estimated earthquake-prone building remediation costs per earthquake-prone building (this is not limited to residential earthquake-prone-buildings).

Support

Some territorial authorities provided small financial incentives to earthquake-prone build owners, such as rates and building consent rebates. Many didn't offer any supports. Wellington City Council offers the most comprehensive range of support options for building owners who are managing earthquake-prone buildings. These include:

Table 5

WELLINGTON CITY COUNCIL REMEDIATION COST ESTIMATES 2021

Funding Estimate	How many	Percentage
0-300,000	8	23
300,001-700,000	10	29
700,001 – 1 million	1	3
1-1.5 million	6	17
1.5-3 million	4	11
3-5 million	1	3
5-10 million	2	6
10-20 million	1	3
20+ Million	2	6
Totals	35	100

Earthquake-prone Building Owners

each building owner has a dedicated case manager/technical advisor to work with from the Resilient Buildings Team

rates remissions for owners undertaking seismic work:

- if a building is empty during strengthening work
- when the building is no longer earthquake-prone

building consent fee rebate - 10% discount on building consent fees

Built Heritage Incentive Fund.

Tenants

In May 2021, the Governance and Administration Committee of the 53rd Parliament expressed concern regarding tenants living in earthquake-prone buildings⁵.

'We are concerned that there does not seem to be any legal requirement for tenants to be informed if the building they reside in or intend to move to has been determined as earthquake-prone. This could particularly be a problem for people with English as a second language, or for people who are desperate to secure a rental property. We encourage MBIE to consider how this could be made clearer for new and prospective tenants.'

Governance and Administration Committee of the 53rd Parliament, May 2021

MBIE asked territorial authorities if they thought tenants in earthquake-prone buildings are informed of and understand if their building is earthquake-prone. Some territorial authorities relied on the earthquake-prone building notices being displayed to ensure that building users are aware that the building is earthquake-prone and reflected that this was sufficient for tenants in earthquake-prone buildings to be informed. There is also an online public register of all confirmed earthquake-prone buildings.

Hutt City Council noted tenants within earthquake-prone buildings often feel grateful to have a roof over their heads as there are significant housing shortages, particularly at the lower end of the rental market. These tenants will be disproportionality impacted if they have to relocate during remediation work that requires the building to be unoccupied.

Wellington City Council noted they regularly visit earthquake-prone buildings to ensure that their notices are being displayed prominently on buildings. A visit to an earthquake-prone building happens approximately 4 weeks after a notice has been formally issued to the building owner. Evidence from these site visits suggest roughly 50% of the time, a notice will not be on display. The tenants may or may not have an awareness of the buildings status, but more often than not they don't really understand the earthquake-prone building system and seldom do tenants know about the plans the building owner may have for future seismic work.

MBIE does not have sufficient information on how territorial authorities ensure earthquake-prone building owners display their notices prominently, or if all territorial authorities are taking a proactive approach. Earthquake-prone building notices are an important signal to building users that they are

⁵ The Governance and Administration Committee reported back on two petitions from Inner-City Wellington requesting support for residential earthquake-prone building owners and a review of the earthquake-prone building provisions of the Building Act 2004. The Committee made no recommendations on the petitions, aside from that the House notes their report.

Earthquake-prone Building Owners

entering an earthquake-prone building that may present a risk to life safety in the event of a moderate earthquake.

Tenants may understand their building is earthquake-prone but given restraints on housing they may not have many other options available to them. Earthquake-prone buildings can legally have residential tenants until the notice expires, this is expected incentivise landlords/investors to remediate their earthquake-prone buildings.

Further comments

Wellington City Council provided MBIE with substantial feedback, further highlighting the localised barriers faced by Wellington earthquake-prone building owners. Wellington City Council is currently halfway through an engagement programme with earthquake-prone building owners to connect with all owners in order to better understand the progress they have made on resolving their seismic issues.

Wellington City Council also wants to understand the challenges and barriers earthquake-prone building owners face and how best to help. As part of Wellington City Council's building owner engagement they are asking building owners to rate how useful some potential future support or incentives would be to them. MBIE will continue to engage with Wellington City Council as they complete their own engagement.

Earthquake-prone Building Owners

4. Suggested changes

Kāinga Ora and Wellington City Council both made some suggestions about changes or additional support provisions could be considered as part of the 12 month review of the Financial Assistance Scheme.

Allow financial assistance be accessed for earlier stages of the remediation planning - There are many steps building owners need to take to be in a position to apply for the fund. The funding criteria could be widened to allow for supporting costs prior to the construction work, for example engineering assessment and design concept. Noting the lessons from the Order in Council Unreinforced Masonry Programme found supporting these types of costs in the early stage was effective.

Allow a wider selection of owners to access financial support:

- Previous owner-occupiers - to borrow through the scheme, provided that they repay the loan within (say) 12 months of completion of remediation.
- Investor owners - to stimulate investor engagement on making remediation plans, and involvement, offer term loans to investors, at below market interest rates

Low equity margin - Unit owners are insulted by this term, as despite being unable to obtain lending from a bank, some have significant equity. The rate is determined via a complex equation and is difficult for potential applicants to calculate what the rate would be at any point in time. Suggestion was made to simplify the below market interest rate calculation, or consider no-interest loans.

Remediation advice service - Many owners don't know what to do or what their remediation options are. Often they don't have the technical or financial expertise required to make informed decisions in the remediation planning. Some have experienced and knowledgeable people within their ownership group, but more often they don't. A remediation service should offer free technical and financial advice – not just point owners in the direction of where they can get paid advice.

Reconsider the loan security requirements – Flexibility for Kāinga Ora to approve loans to residential earthquake-prone building owner-occupiers that do not meet the current loan security requirements. Many earthquake-prone building owners cannot obtain affordable earthquake insurance for their buildings, insurance is a security requirement which means Kāinga Ora cannot grant loans to owner-occupiers in these buildings.

Give greater discretion to Kāinga Ora:

- Ability to provide loan where owner cannot obtain insurance
- Acceptable level of security
- Allow loan to cover accommodation costs
- Allow the loan to cover earthquake-prone building related levies
- Allow people who purchased units after 1st July 2017

Accommodation Supplement - Allow existing recipients of the Accommodation Supplement to retain their entitlement. Their expenses will not have reduced as a result of taking a loan from the Financial Assistance Scheme.

Establishment fee – Kāinga Ora can charge up to \$500 dollars per application as an establishment fee. It was included to prevent people who do not have a genuine need to engage with the service unnecessarily using Kāinga Ora resources. However, since the scheme has been operational Kāinga Ora's view is in reality most people they have been engaged with are genuine potential applicants. All potential applicants have required a high level of case management and therefore incurred high costs, this also reflects that they are genuine potential applicants.

Kāinga Ora Chief Executive exemption - Current confusion from owners about what the parameters of the exemption include.

Annex Three: Analysis of strengthening costs

MBIE received feedback from 39 respondents who provided estimates of their remediation costs. The costs detailed in this report are GST inclusive.

Data on strengthening costs

Nineteen respondents provided a cost per unit breakdown of their remediation costs. Data received by MBIE shows that the lowest estimated cost per unit is \$60,000 while the highest estimated cost per unit is \$900,000. The average remediation cost per unit is \$255,000. Fifteen of the nineteen respondents who provided data on their estimated remediation costs per unit indicated costs at or below the maximum loan amount. There are outliers where seismic strengthening is significantly more costly (e.g. heritage buildings), but other support mechanisms should be explored for these specific circumstances. It may also be that some earthquake-prone buildings are not viable to seismically strengthen. Table 2 below lists the estimated remediation costs per unit provided by respondents and how many respondents provided each estimate.

Table 2: Estimated remediation costs from owner-occupiers

Estimated remediation cost per unit	How many respondents provided the estimate
\$60,000 (34%NBS)	1
\$105,000	1
\$120,000 (67%NBS)	1
\$170,000	9
\$200,000	2
\$250,000	1
\$350,000 (includes weather tightness remediation)	1
\$375,000	1
\$750,000	1
\$900,000	1

Twenty respondents provided estimated remediation costs for their whole building. Some respondents provided estimated building remediation costs inclusive of related expenses (e.g. engineering assessments and legal advice), while others provided estimated costs exclusive of additional expenses. The lowest estimated remediation cost per building is \$250,000 excluding additional expenses and \$500,000 including related expenses. The highest estimated remediation cost per building is \$11,000,000 excluding additional expenses and \$20,000,000

including related expenses. The average cost of remediating a building, according to the data, is \$4,914,000 excluding additional expenses and \$5,676,667 including related expenses.

MBIE notes that a previous owner-occupier said they sold their building 'as is' because the remediation of the building was quoted to cost over \$32,000,000. This shows that some earthquake-prone buildings will not be viable to remediate through seismic strengthening.

Strengthening to 34% NBS versus 67% NBS

Data provided by respondents included estimated remediation costs to strengthen units to different NBS ratings. Some respondents said that the cost to strengthen their units to 34% NBS is \$60,000 per unit while others said the cost to strengthen their entire building to 34% NBS is \$2,000,000. At the other end of the scale, some respondents said the cost to strengthen their unit to 67% NBS is \$120,000 per unit while others said the cost to strengthen their entire building to 67% NBS is \$4,000,000.

Throughout targeted engagement, respondents explained that there are different considerations when deciding whether to strengthen a building to 34% NBS or 67% NBS. Buildings that are 33% NBS and below are considered earthquake-prone and present a risk to life safety. Therefore, strengthening a building to 34% NBS is the option that allows owners to meet the minimum requirements of their earthquake-prone building obligations under the Building Act 2004.

Many respondents told MBIE that this minimum remediation option is the most affordable option. However, from feedback received from respondents, it seems that most banks and insurers focus on building viability rather than the risk to life safety. Respondents said most insurers will only consider insuring buildings strengthened to 67% NBS or higher because remediating to 34% NBS may not meet market expectations. The difference in result when strengthening to 34% NBS versus 67% NBS highlights the disconnect between life safety considerations and market expectations for building viability.