

To: Minister for Canterbury Earthquake Recovery

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Canterbury Earthquake Recovery Authority

## Revised Cabinet Paper: Red Zone Purchase Offers

Date	30 August 2012	Priority	Normal
Report No	M/12-13/084	File Reference	M/12-13/084

### Action Sought

		Deadline
Hon Gerry Brownlee <i>Minister for Canterbury Earthquake Recovery</i>	Sign the attached Cabinet paper so it can be lodged with Cabinet office.	9am, Friday 31 August 2012

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Diane Turner	General Manager, Strategy Planning & Policy	[REDACTED]	<input checked="" type="checkbox"/>
Angela Mellish	Senior Advisor, Strategy Planning & Policy	[REDACTED]	

withheld under section 9(2)(a)

### Minister's office comments

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to

Comments

## Revised Cabinet Paper: Red Zone Purchase Offers

### Purpose

- 1 This report provides you with a revised draft Cabinet paper on red zone purchase offers for residential leasehold, vacant, uninsured and commercial/industrial properties. It recommends you sign the attached paper and lodge it as a late paper if you want it to be considered by Cabinet Business Committee on Monday 3 September 2012.

### Comment

- 2 GERA provided you a draft Cabinet paper on red zone purchase offers for residential leasehold, vacant, uninsured and commercial/industrial properties on Friday 24 August 2012 for your consideration [GERA report M/12-13/075 refers].
- 3 We have since revised the paper following the feedback you provided at a meeting on Monday 27 August. The main changes to the paper relate to clearly bringing out the options that you considered in coming to your recommendations.
- 4 The revised draft Cabinet paper is attached to this report for your consideration. If you want the paper to be considered by Cabinet Business Committee on Monday 3 September, the paper will have to be submitted as a late paper.

### Recommendations

- 5 It is recommended that you:

#### EITHER

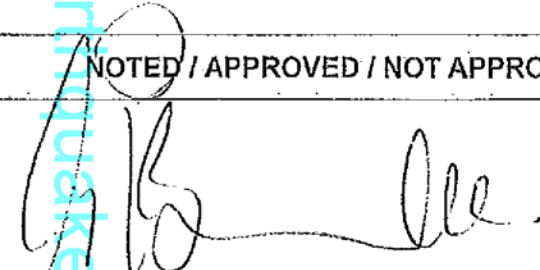
- 1 Indicate to officials any changes you would like made to the attached Cabinet paper on red zone offers for residential leasehold, vacant, uninsured and commercial/industrial properties;

#### OR

- 2 Sign the attached Cabinet paper, and submit it as a late paper if you want it considered by Cabinet Business Committee on Monday 3 September 2012.



Diane Turner  
General Manager, Strategy, Planning & Policy

NOTED / APPROVED / NOT APPROVED
 Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery
Date: 30/08/2012

Attachment: (Revised)-Cabinet paper - Red zone purchase offers for residential leasehold, vacant, uninsured and commercial/industrial properties

Chair  
Cabinet Business Committee

## RED ZONE PURCHASE OFFERS FOR RESIDENTIAL LEASEHOLD, VACANT, UNINSURED, AND COMMERCIAL/INDUSTRIAL PROPERTIES

### Purpose

- 1 This paper seeks agreement to the Crown offering to purchase insured residential leasehold properties, properties with no insurance (vacant land and other uninsured properties) and insured commercial/industrial properties in the residential red zone on the flat land<sup>1</sup>.

### Executive summary

- 2 The Government has previously agreed to offer to purchase insured residential properties, insured residential properties under construction and insured properties owned by not-for-profit organisations in the Canterbury red zones [CAB Min (11) 24/15 and CAB Min (12) 19/7A refer]. The zoning and Crown offers are in support of the Government's rebuild and recovery objectives.
- 3 This paper addresses a number of property categories on the flat land which are currently ineligible for a purchase offer from the Crown: *insured residential leasehold properties, properties with no insurance (vacant land and other uninsured properties), and insured commercial/industrial properties*. The recommendations in this paper do not apply to equivalent Port Hills red zone properties, which will need to be subject to further consideration, nor privately-owned utilities, Crown and Council-owned properties.

### *Insured residential leasehold properties*

- 4 I have considered three options for the six insured residential leasehold properties, where the land is owned by Waimakariri District Council (WDC):
  - (i) No offer
  - (ii) An offer to purchase the leasehold interest and improvements
  - (iii) **An offer to purchase the freehold and leasehold interest in the land and improvements at the most recent rating valuation.**
- 5 Option (i) would create a clear inequity in the treatment of these property owners compared to all other residential property owners in the residential red zone. Option (ii) would mean the Crown becomes the lessee to WDC, who would still own the land.
- 6 I recommend option (iii), where the offer is on the same terms as the offer made to owners of insured residential properties (Option 1/Option 2), *but conditional on the leaseholder entering into an agreement with WDC for the purchase and merger of freehold interest in the land.*

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<sup>1</sup> Excludes Port Hills Red Zone

### *Vacant land*

- 7 There are 65 vacant land properties in the flat land residential red zones. Vacant land is uninsured. For these properties there are three broad options:
- (i) No offer
  - (ii) **An offer at a reduced rating valuation**
  - (iii) An offer at 100% of rating valuation
- 8 Option (i) would not advance the Government's recovery objectives as there is significant uncertainty in the longer term future of the red zones. Option (iii) is unattractive because it would fully compensate owners for uninsured losses – a bad precedent and unfair to insured owners.
- 9 I recommend Option (ii), an offer at a reduced rating valuation, set at 50% of land value. I assess this would support the Government's rebuild objectives by enabling the owners to move on from the red zone while acknowledging the land is damaged and not insured.

### *Uninsured improved properties*

- 10 There are 50 uninsured improved properties that have been identified in the flat land residential red zones. I have considered three options for these properties:
- (i) No offer
  - (ii) **An offer to purchase the property at 50% of land rating valuation**
  - (iii) An offer on the same terms as for insured residential properties (100% of rating valuation)
- 11 The considerations here are very similar to those that apply to the options for owners of vacant land. Also, there are significant costs to property owners remaining in the red zone, particularly through the provision of infrastructure. I recommend an offer to purchase uninsured improved properties at 50% land value as it helps enable the owners to exit the red zone. The value of the offer acknowledges the land is damaged, recognises the property is uninsured, and does not create a moral hazard – these owners are not being compensated for uninsured losses. I would expect that for most red zone property owners in this position, the offer would be in the order of \$60,000 - \$100,000.

### *Insured commercial/industrial properties*

- 12 There are 22 insured commercial/industrial properties in the flat land residential red zones. In considering the treatment for these properties, I have identified three possible approaches.
- (i) No offer
  - (ii) **An offer on the same terms as the offer made to owners of insured residential properties but at a reduced rateable value (50%) for the land component of the value**
  - (iii) An offer on the same terms as the offer made to owners of insured residential properties.
- 13 Making no offer would not advance the Government's recovery objectives. Just like uninsured residential owners, there are costs associated with delays in not enabling property owners to move elsewhere, and significant uncertainty in the longer term future of the red zones. However, simply

extending the residential offer to commercial owners would set a bad precedent – the land is uninsured, and has a reduced value post-earthquake.

- 14 I recommend option (ii). It sends a signal about vacating the red zone, supports recovery objectives, but does not provide significant compensation for uninsured losses.
- 15 As with previous Crown offers, I recommend that the Crown contributes towards legal fees to facilitate the purchase, as indicated in the table below. The table notes the total cost of acquisition, and transaction and legal fee costs for the recommended offers.

#### Summary of Recommended Offers

Offer*	Legal Fees	Total Cost
<b>Insured residential leasehold properties</b> (6 properties) An offer to purchase the freehold and leasehold interest in the land and improvements at the most recent rating valuation.	Legal fees contribution, up to \$750 – Option 1 \$500 – Option 2	\$1.241 million
<b>Vacant red zone land (65 properties)</b> An offer to purchase the land at 50% rating value	Legal fees contribution up to \$500	\$7.129 million
<b>Uninsured improved properties (50 properties identified to date)</b> An offer to purchase the property at 50% land value	Legal fees contribution up to \$500	\$5.428 million
<b>Insured commercial/Industrial red zone properties (22 properties)</b> Option 1 and Option 2 offers as for insured residential properties, but at a <i>reduced</i> rateable value (50%) in respect to the <i>land component</i> of the value	Legal fees contribution up to: \$750 – Option 1 \$500 – Option 2	\$7.297 million
	<b>Total</b>	<b>\$21.095 million</b>

\*excludes Port Hills red zone and privately-owned utilities and Crown and council-owned properties

- 16 I recommend the same offer period and final settlement terms as for previous flat land offers - a final settlement date of 30 April 2013 for most areas, with Southshore red zone being 30 June 2013. Offer periods will in this case be until one month prior to final settlement. For owners of vacant land, I recommend settlement within six weeks of accepting the Crown offer, or the final settlement date (whichever comes first).
- 17 As the existing transaction design will need to be modified for the offers in this paper, I propose that Cabinet authorise the Chief Executive of the Canterbury Earthquake Recovery Authority to take minor or technical decisions to vary the terms of the Crown offer as necessary to facilitate the purchase of these properties.

#### Background

- 18 Following the Canterbury earthquakes, some six square kilometres of land across the Christchurch and Waimakariri District Council areas has been assigned red zone status. Red zones on the flat land have been declared in areas where there is area-wide damage (implying an area-wide solution) and an engineering solution to remediate the land damage would be uncertain, disruptive, not timely, nor cost effective and the health and wellbeing of residents is at risk.

- 19 Zones were agreed by Cabinet on 23 June 2011, with the announcement of a package to support insured residential property owners whose houses are located in the Canterbury red zones [CAB Min (11) 24/15 refers]. An additional Crown offer package to support insured red zone properties under construction and non-residential properties owned by not-for-profit organisations was announced on 15 June, 2012 [CAB Min (12) 19/7A refers]. In red zoning parts of the Port Hills, Ministers with Power to Act agreed to extend red zone offers to Port Hills' owners of insured residential properties, insured residential properties under construction, and insured non-residential properties owned by not-for profit organisations [CAB Min (12) 19/7A].
- 20 Under these packages, the Crown has offered to purchase insured properties at the most recent rating valuation<sup>2</sup> (the Crown offer). Property owners can choose either:
- Option 1 - the purchase price paid for the property is the most recent rating valuation for the land and improvements and the Crown takes over all insurance claims for damage to the property; or
  - Option 2 - the purchase price paid for the property is the most recent rating valuation for the land and the Crown takes over the EQC claim for land damage only. The property owner retains the benefit of all insurance claims for damage to improvements and continues to deal with EQC and their insurer to settle those claims.
- 21 The zoning and Crown offers are in support of the Government's rebuild and recovery objectives: certainty of outcome for home-owners as soon as practicable; creating confidence for people to be able to move forward with their lives; creating confidence in decision making processes; using the best available information to inform decisions and having a simple process in order to provide clarity and support for land-owners, residents, and businesses in those areas [CAB Min (11) 24/15 refers].
- 22 The discussion of offers in this paper does not apply to equivalent Port Hills red zone properties, which will need to be subject to further consideration, nor privately-owned utilities, Crown and Council-owned properties in the red zones.

### Insured Residential Leasehold Properties

- 23 Officials have identified six residential properties occupied under perpetually renewable leases on land owned by the Waimakariri District Council (WDC), where the improvements are owned by the leaseholder. Leasehold property owners have not received the Crown offer for insured residential properties as they do not own their land.
- 24 Owning one of these leasehold properties is similar to having a freehold interest, in that leaseholders can secure a mortgage over their lease and, provided they have the consent of the WDC, they can assign their leasehold interest and sell their dwelling.
- 25 I have considered three options for residential leasehold properties:
- (i) **No Crown offer to purchase WDC leasehold properties** – I consider that this option does not meet the government's recovery objectives noted in paragraph 21 and does not enable the property owners to move out of the red zone.
  - (ii) **An offer to purchase the leasehold interest and improvements** – while this option would enable the leasehold owner to move on from the red zone, it is not my preference for the Crown to become a lessee to WDC, and the offer would significantly deviate from all other Crown offers in that the Crown is not purchasing the entire property freehold. It would also

<sup>2</sup> i.e. the most recent valuation prior to the September 4 2010 earthquake. For Christchurch City Council this is the 2007 rating valuation and for Waimakariri District Council, the 2008 rating valuation.

pose valuation difficulties as a separate rating valuation does not exist for the leasehold interest in these properties.

**(iii) An offer to insured owners of residential leasehold interests, for the purchase of leasehold and freehold interests (subject to agreement between WDC and the lessee).** This is my preferred option which gives the lessee the opportunity to become eligible for a Crown offer, given they are in a similar situation to other insured residential property owners.

- 26 Under my preferred option (iii), the Crown would extend the offer at 2008 rateable value to the insured owner of the leasehold interest for the purchase of the entire property as for Options 1 and 2 of the Crown offer for insured residential properties. The offer would be conditional on the leasehold owner entering into an unconditional agreement with WDC for the purchase and merger of the freehold interest in the land, and the assignment to the leasehold owner of any interest that WDC has in the EQC and insurance claims.
- 27 The agreement between WDC and the leaseholder would have to be made within three months of the date of the sale and purchase agreement between the lessee and the Crown, or one month prior to the final settlement date, whichever comes first. The offer would otherwise be on the same terms as the offer made to owners of insured residential properties (Option 1/Option 2).
- 28 This arrangement means that WDC would have to negotiate a freehold value with the leaseholders if it wishes to facilitate the sale of these properties to the Crown. Officials have discussed this approach with WDC, in which they have indicated general comfort. While I understand the next Council meeting for which this approach could be formally approved is 4 September 2012, I have sufficient comfort to recommend this approach now.
- 29 I anticipate that the gross cost to the Crown will be \$1.090 million, with an additional transaction cost of an estimated \$0.151 million.

#### **Properties with no insurance**

- 30 There are two broad categories of properties with no insurance; vacant land and improved properties which are uninsured.
- 31 For these properties there are three broad options:
- (i) No offer**
  - (ii) An offer at a reduced rating valuation**
  - (iii) An offer on the same terms as for insured residential properties.**
- 32 There are strong arguments for not extending an offer to these property categories on the same terms as for insured properties. It would compensate for uninsured damage, be unfair to other red zone property owners who have been paying insurance premiums, and it creates a moral hazard in that the incentives to insure in the future (where insurance is available) are potentially eroded.
- 33 However, there are costs associated with property owners remaining in the area. While property owners remain in the area, there is limited scope to decommission infrastructure – which is costly to maintain. Christchurch City Council estimates that the cost of providing infrastructure to a household in the red zone is on average over \$15,000 more than the pre-earthquake cost of around \$600<sup>3</sup>. This figure assumes 79% occupancy, and as more people move out, the infrastructure servicing cost per household will increase significantly.

<sup>3</sup> Based on actual costs from September 2010 to November 2011.

- 34 Properties with no insurance in the red zones are also in a different situation to similar properties in the green zones. Red zone properties are in areas of severe infrastructure damage, many surrounding neighbours have either left or are planning to leave (as evidenced by the high uptake rate of the Crown offer<sup>4</sup>), and there is considerable uncertainty about what will happen to these areas in the future. Therefore I do not support the option of no offer being made as there are good reasons to support exit from the red zones.
- 35 I consider that an offer should:
- 35.1 Recognise that red zone properties are worth a lot less than the pre-earthquake value due to the considerable earthquake damage; and
- 35.2 Recognise that the property damage is not insured; and
- 35.3 Recognise that there is some residual property value.
- 36 I discuss the proposed form of the offer for *vacant land* and *uninsured improved properties* in turn below.

#### **Red zone vacant land**

- 37 There are 65 vacant sections in the flat land red zones.
- 38 I support an offer to purchase land at a *reduced* rateable value. The basis for setting the value does not lead to a precise figure and there is some judgement to be applied about the proportion of land value that should form the basis of an offer.
- 39 The residual property value sets a lower limit for a Crown offer to red zone vacant land owners. Given the lack of an effective property market in the red zones, a post-earthquake market value is very difficult to establish<sup>5</sup>. Around the time of the initial zoning decisions in June 2011, the Valuer General indicated that the land may be worth only 10% of its pre-earthquake value [CAB Min 11 24/15 refers].
- 40 I consider that an offer at 50% of rateable value would ensure that the offer is not below the post-earthquake value (given individual properties values may vary from the 10% estimate), and help support the signal that the Government wants to encourage property owners to move on from the red zone.
- 41 I have established that a Crown offer to properties in this category can be modelled on the Option 2 offer to insured residential property owners, although modified to take account of the absence of EQC cover for land and the reduction in the level of offer in regards to land value.
- 42 I anticipate that the net cost to the Crown will be \$6.031 million, with an additional transaction cost of an estimated \$1.098 million.

#### **Uninsured improved properties**

- 43 At this time, officials are aware of 50 uninsured improved properties in the red zones. Uninsured improved properties include those where the owner consciously chose to not insure, as well as those that may have been insured at some point but do not meet the insurance continuity requirements of the Crown offer for insured properties. The capital value of the uninsured properties officials have been able to identify to date is \$14.816 million, with a land value of \$8.324 million.

<sup>4</sup> As at 13 August 2012, 5688 offers have been accepted from a total of 7560 red zone properties, or 75% (some of the remaining 25% are currently ineligible and/or have not yet received an offer). All of the 2970 offers that were due to expire on 19 August 2012 have been accepted.

<sup>5</sup> An analysis of property sales in Bexley indicates few (if any) properties have changed hands since 23 February 2011 (other than sales to the Crown).



- 44 I recommend that an offer to purchase the property is made with reference to a *reduced* rateable value for land only. For the same reasons outlined for vacant land, I consider that an offer at 50% of rateable value should be made. Property owners would retain salvage rights to uninsured buildings and would have the option to relocate buildings up until the point of settlement with the Crown.
- 45 This offer supports the signalling objective for the red zone while providing some support for recovering elsewhere and acknowledging that the owners were not fully insured throughout the whole process. I would expect that for most red zone property owners in this position, the offer would be in the order of \$60,000 - \$100,000.
- 46 I have established that a Crown offer to properties in this category can be modelled on the Option 2 offer to insured residential property owners, although modified to take account of the reduction in the level of offer in regards to land value and non-compliance with the insurance requirements. The offer will continue to make provision for the Crown taking over any EQC claim for land damage on the property prior to the property becoming uninsured for the purposes of the Crown offer.
- 47 My officials can only become aware of uninsured properties that are either self-identified (e.g. through the contact centre) or where in the course of the offer process it is established that the property is uninsured for the purpose of the Crown offer.
- 48 In taking previous land zoning decisions, sufficient funding was provided to cover the acquisition of the properties including transaction costs, as uninsured properties will only become identified through the initial consent process or follow up communication.
- 49 I anticipate that the cost to the Crown of this offer will be \$4.162 million, with additional transaction costs of an estimated \$1.266 million.

#### **Insured commercial/industrial properties in the residential red zones**

- 50 There are some 22 Insured commercial/industrial properties in the red zones. A portion of these consist of land and buildings owned by the operators of the businesses that occupy them, with the rest being land and/or buildings leased to a commercial/industrial operation.
- 51 The majority are properties from which small businesses operate, including corner stores, takeaway shops, veterinary clinics, motels and cafes. Small businesses are predominantly owner-operated and service local communities. As such, many have lost or will lose their customer base, even if they are still able to operate from their premises.
- 52 Commercial/industrial property owners face on-going uncertainty in addition to potential loss of customer base, through potential withdrawal of infrastructure, and access to property over time. In general, the land in the residential red zones is severely damaged and would require costly area-wide remediation before any rebuilding could be undertaken.
- 53 In considering the treatment of insured commercial/industrial properties I have identified three possible approaches.
- 54 **The first is for no Government offer to be extended to commercial/industrial properties at this time.** I do not assess this to be consistent with the principles on which the Crown offer has been extended to insured residential property owners or with the Government's recovery objectives. As noted earlier, there are costs associated with delays in not enabling property owners to move elsewhere, and significant uncertainty in the longer term future of the red zones.
- 55 **The second is for an offer to insured commercial/industrial property owners on the same terms as the offer made to owners of insured residential properties.** I do not assess this

second option as appropriate as it includes a component for the full pre-earthquake land value, despite the land being damaged and uninsured<sup>6</sup>.

- 56 **I recommend a third approach of an offer to insured commercial/industrial property owners, where the offer is on the same terms as the offer made to owners of insured residential properties but at a reduced rateable value (50%) for the land component of the value.**
- 57 I have established that a Crown offer to properties in this category can be modelled on the offer to insured residential property owners, although modified to take account of the absence of EQC cover for land and the reduction in the level of offer in regards to land value:
- Option 1 - the purchase price paid for the property is the most recent rating valuation for the improvements and 50% of the most recent rating valuation for the land and the Crown receives the benefit of all insurance claims for damage to the buildings.
  - Option 2 - the purchase price paid for the property is 50% of the most recent rating valuation for the land and the property owner retains the benefit of all insurance claims for damage to buildings and continues to deal with their insurer to settle those claims.
- 58 I anticipate that the gross cost to the Crown will be \$6.463 million, with an additional transaction cost of an estimated \$0.834 million. Insurance receivables on the building would be expected for Option 1 offers, and are estimated to be 0.677 million.
- 59 As for other offers, the Crown would require vacant possession of the property on settlement. Owners and tenants would have to agree to the termination of any lease or tenancy arrangements to comply with this requirement.
- 60 I assess this option is consistent with the principles on which the Crown offer has been extended to insured residential property owners and would support the Government's recovery principles.
- 61 The approach to vacant and commercial properties in the residential red zones differs to that under consideration in the Christchurch Central Recovery Plan. I consider that this is appropriate given:
- 61.1 The Government has not signalled an intention to compulsorily acquire residential red zone areas, as it has in the CBD to enable implementation of the Christchurch Central Recovery Plan;
- 61.2 There is not a functioning property market in the residential red zones on which to establish market values; and
- 61.3 There is considerable uncertainty about the longer term future of the residential red zones.
- 62 For avoidance of doubt, commercial/industrial and vacant land property categories are not intended to capture utility/infrastructure properties or Council owned properties.

### Legal Fees

- 63 For other Crown offers in the residential red zone, the Crown has provided a legal fees contribution as part of the offer – up to a maximum of \$750 for Option 1 and \$500 for Option 2 [CAB Min (11) 27/13 refers].

<sup>6</sup> Residential properties under construction with contract works insurance also had no land insurance and have been extended an offer based on the full rating valuation. Part-build properties have been treated similar to insured residential properties as on completion of the building when residential insurance cover is secured they would have been eligible for EQC land cover.

- 64 I recommend that a similar contribution is provided for the property categories outlined in this paper as in the table below, at an estimated cost of \$0.071 million.

Property category	Suggested maximum legal fees contribution
Insured residential leasehold properties	\$750 Option 1
	\$500 Option 2
Vacant land	\$500
Uninsured improved properties	\$500
Insured commercial/Industrial properties	\$750 Option 1
	\$500 Option 2

### Offer periods and settlement dates

- 65 For existing flat land red zone Crown offers, there is a final settlement date of 30 April 2013 for most areas, with Southshore red zone being 30 June 2013 [CAB Min (11) 24/15 and CERA report M/12/0362 refer]. Offer periods are for 12 months from the date the offer is sent, or one month prior to final settlement (whichever comes first) [CAB Min (12) 10/19 and CERA report M-12-0337 refer].
- 66 I consider that the offer period and final settlement terms should be included in the offers recommended in this paper, (with the exception of the settlement period for vacant land noted below). For these offers, the offer period will extend until one month prior to the final settlement date in all cases. While these property owners will have less time to consider an offer compared to others, they have known for some time that they are zoned red. Further, any extension of offer and settlement dates beyond April and June 2013 will delay the exit from these areas.
- 67 For vacant land, the property owner does not need to find accommodation elsewhere and move possessions, so a short settlement period following acceptance of an offer is reasonable. Therefore, settlement of purchases for vacant land will be required within six weeks of accepting the Crown offer, or the final settlement date (whichever comes first).

### Transaction design

- 68 The detailed design of the transaction process and the delivery systems, including legal fees, for Crown offers has been established under the existing Crown offer to residential insured property owners in the red zone [Cab Min (11) 27/12 and Cab Min (11) 27/13 refers].
- 69 On the basis that these transactions will need to be modified to effect the offers in this paper, I propose that Cabinet authorise the Chief Executive of the Canterbury Earthquake Recovery Authority to take minor or technical decisions to vary the terms of the Crown offer as necessary to facilitate the purchase of these properties.

### Consultation

- 70 Treasury, the Ministry of Business Innovation and Employment, and the Earthquake Commission were consulted on this paper. The Department of the Prime Minister and Cabinet was informed of this paper.

## Financial implications

- 71 The table below summarises the gross cost for the Crown purchase offers recommended in this paper:

Property category	Number of properties	Acquisition of Properties (\$million)	Transaction Costs and Legal Fees (\$million)	Total Cost (\$million)
Insured residential leasehold properties	6	1.090	0.151	1.241
Vacant land	65	6.031	1.098	7.129
Uninsured improved properties	50	4.162	1.266	5.428
Insured commercial/industrial properties	22	6.463	0.834	7.297
<b>Subtotal</b>	<b>143</b>	<b>17.746</b>	<b>3.349</b>	<b>21.095</b>
Funding received (uninsured)	50	-4.162	-1.266	-5.428
<b>Total</b>	<b>93</b>	<b>13.584</b>	<b>2.083</b>	<b>15.667</b>

- 72 An increase to existing appropriations is required to cover the costs for offers to insured residential leasehold properties, vacant land and commercial/industrial properties. No new funding is required for offers to uninsured improved properties as the costs will have already been included in previous red zone offer decisions based on the original assumption that these properties were insured.
- 73 The Crown may recognise insurance receivables relating to the purchase of insured properties – thereby reducing the net cost to the Crown. Given the limited information on the insurance recoveries expected, and the relatively small purchase costs for these properties, the insurance recoveries have been estimated at \$0.677M. This leads to a total net cost (including associated costs) of \$14.990M. The net cost of purchasing these properties will be a charge against the Canterbury Earthquake Recovery Fund.

## Human rights implications

- 74 The proposals in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990, or the Human Rights Act 1993.

## Legislative implications

- 75 There are no legislative implications arising from this paper.

## Regulatory impact and compliance cost statement

- 76 A regulatory impact statement is not required at this time as there are no regulatory changes.

## Gender implications

- 77 There are no gender implications associated with the proposals in this paper.

## Disability perspective

- 78 There are no disability implications associated with the proposals in this paper.

## Publicity

- 79 If you agree to the recommendations in this paper, I intend to make a public announcement about the offers on Friday 14 September 2012.

## Recommendations

It is recommended that Cabinet:

### *Background*

- 1 **note** that on 23 June 2011, Cabinet announced a package to support insured, residential property owners in the Canterbury red zones where property owners can choose either:
  - Option 1 - the purchase price paid for the property is the most recent rating valuation for the land, buildings and fixtures and the Crown takes over all insurance claims for damage to the property; or
  - Option 2 - the purchase price paid for the property is the most recent rating valuation for the land and the Crown takes over the EQC claim for land damage only (the property owner retains the benefit of all insurance claims for damage to improvements and continues to deal with EQC and their insurer to settle those claims);
- 2 **note** that the Crown's purchase offer was made in consideration of the Government's rebuild and recovery objectives: certainty of outcome for home-owners as soon as practicable; creating confidence for people to be able to move forward with their lives; creating confidence in decision making processes; using the best available information to inform decisions and having a simple process in order to provide clarity and support for land-owners, residents, and businesses in those areas [CAB Min (11) 24/15 refers];

### *Residential leasehold properties*

- 3 **note** there are six residential properties ineligible for the red zone offer because the land is owned by the Waimakariri District Council (WDC) and the property occupied under a perpetually renewable lease;
- 4 **agree** to the Crown making an offer to insured owners of residential leasehold interests in recommendation 3 to purchase the freehold and leasehold interests in the land and improvements on the same terms as the offer made to owners of insured residential properties (Option 1/Option 2), but conditional on the leaseholder entering into an agreement with WDC for the purchase and merger of freehold interest in the land within three months of the sale and purchase agreement between the lessee and the Crown;

### *Properties with no insurance*

- 5 **note** there are infrastructure servicing costs associated with not enabling some property owners to exit the red zones in a timely manner;
- 6 **note** there are good reasons for uninsured properties (including vacant land) to not receive an offer on the same terms as insured properties:
  - 6.1 it would compensate for uninsured damage;
  - 6.2 it would be unfair to other red zone property owners who have been paying insurance premiums; and
  - 6.3 it could create a moral hazard in that the incentives to insure in the future are potentially eroded;

7 **note** that properties with no insurance in the red zones are in a different situation to similar properties in the green zones because:

7.1 there is severe infrastructure damage;

7.2 many surrounding neighbours have either left or are planning to leave; and

7.3 there is considerable uncertainty about what will happen to these areas in the future;

*Vacant land*

8 **note** that there are 65 vacant sections in the red zones on the flat land;

9 **agree** to the Crown making an offer to purchase vacant land in the flat land red zones, where the offer is on the same terms as Option 2 for insured residential properties, but at a reduced rateable value (50%) in respect to the land component of the value;

*Uninsured improved properties*

10 **note** that 50 uninsured improved flat land red zone properties have been identified, and that more properties in this category are likely to be identified in the future;

11 **agree** to the Crown making an offer to purchase uninsured improved properties in the flat land red zone, where the offer is on the same terms as Option 2 for insured residential properties, but at a reduced rateable value (50%) in respect to the land component of the value;

12 **note** that under the offer for uninsured properties, property owners would retain salvage rights to uninsured buildings up until the point of settlement with the Crown and would have the option to relocate those buildings;

*Commercial/industrial properties*

13 **note** there are 22 commercial/industrial properties in the red zones;

14 **agree** to the Crown making an offer to insured commercial/industrial property owners, where the offer is on the same terms as the offer made to owners of insured residential properties (Option 1 and Option 2), but at a reduced rateable value (50%) in respect to the land component of the value;

*Other considerations*

15 **note** for other Crown offers in the residential red zone, the Crown has provided a legal fees contribution as part of the offer – up to a maximum of \$750 for Option 1 and \$500 for Option 2 [CAB Min (11) 27/13 refers].

16 **agree** that a maximum legal fees contribution be made as part of the offers as follows:

16.1 WDC residential leasehold land – \$750 for Option 1 or \$500 for Option 2

16.2 Vacant land – \$500

16.3 Uninsured – \$500

16.4 Commercial/Industrial – \$750 for Option 1 or \$500 for Option 2

17 **note** that final settlement dates for previous offers are 30 April 2013 for most areas, with Southshore red zone being 30 June 2013 [CAB Min (11) 24/15 and CERA report M/12/0362 refer];

- 18 **note** that offer periods for previous offers are for 12 months from the date the offer is sent, or one month prior to final settlement, whichever comes first [CAB Min (12) 10/19 and CERA report M-12-0337 refer];
- 19 **agree** final settlement dates for the offers in recommendations 4, 9, 11, and 14 will be the same as those noted in recommendation 17, except for the settlement period for vacant land.
- 20 **agree** that for vacant land, settlement will be required within six weeks of accepting the Crown offer, or the final settlement date noted in recommendation 17, whichever comes first;
- 21 **agree** that the offer periods for the offers in recommendations 4, 9, 11, and 14 will be until one month prior to final settlement, consistent with previous offers noted in recommendation 18.
- 22 **note** the offers in recommendations 4, 9, 11, and 14 may require amendments to the existing transaction design for insured residential properties;
- 23 **authorise** the Chief Executive of the Canterbury Earthquake Recovery Authority to take minor or technical decisions to vary the terms of the Crown offer as necessary to facilitate the purchase of properties referred to in recommendations 4, 9, 11, and 14;

#### **Financial recommendations**

- 24 **note** that the gross cost of purchasing residential leasehold, vacant land and commercial/industrial properties in the red zone is estimated to be \$13.584 million;
- 25 **note** that any insurance receivables that arise as a result of these offers will be deducted from the purchase price consistent with the Crown offer with an estimated net impact on the Crown of \$12.907 million;
- 26 **note** that the cost of contributions towards legal fees, demolition and property management as a result of these offers is estimated to be \$2.083 million over two years;
- 27 **approve** a total gross cost of \$15.667 million for the purchase of residential leasehold, vacant land and commercial / industrial properties in the red zone referred to in recommendations 4, 9, 14 and 16;
- 28 **note** that the purchase and associated costs of uninsured improved properties in the red zone were appropriated as part of earlier land zoning decisions;

29 agree to the following changes to appropriations to provide for the decisions in recommendations 4, 9, 14 and 16, with a corresponding impact on the operating balance:

Vote Canterbury Earthquake Recovery	\$m - Increase/(decrease)				
	2012/13	2012/13	2013/14	2014/15	2015/16 & outyears
Minister for Canterbury Earthquake Recovery					
Non-Departmental Other Expense					
Acquisition of Canterbury Red Zone Properties	13.584	-	-	-	-
Contributions towards legal fees	0.071	-	-	-	-
Canterbury Earthquake Property Demolitions and Related Costs and Compensation	0.250	0.262	-	-	-
Red Zone Property Management Costs	0.680	0.736	-	-	-
Departmental Output Expense					
Red Zone Property Acquisition Costs	0.084	-	-	-	-
<b>Total</b>	<b>14.669</b>	<b>0.998</b>	-	-	-

- 30 agree that the proposed changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 31 agree that all the expenses (net of insurance recoveries where applicable) incurred under appropriations agreed in recommendation 29 be a charge against the Canterbury Earthquake Recovery Fund, established as part of Budget 2011;
- 32 note that recommendations 1 to 31 do not apply to red zone properties in the Port Hills.



Hon Gerry Brownlee  
Minister for Canterbury Earthquake Recovery

30, 08, 2012