

## **Property Council New Zealand**

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# **Submission on DZ TS 1170.5:2024 (Draft)**

2 April 2024

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## **Submission on DZ TS 1170.5:2024 (Draft)**

### **1. Summary**

- 1.1. Property Council New Zealand (“Property Council”) welcomes the opportunity to submit to Standards New Zealand on DZ TS 1170.5:2024 (Draft). Comments and recommendations are provided on issues relevant to Property Council’s members.

### **2. Recommendations**

- 2.1 At a high level, Property Council recommends that:

- Standards New Zealand develop separate building standards for existing and new buildings;
- Central Government conduct planned reviews of the New Building Standard (“NBS”) ratings system every 20 years;
- The use of non-binding guidance such as the C5 Yellow Chapter be avoided;
- Tax deductibility of seismic upgrade costs be introduced for all property asset classes;
- Government undertake and publish ‘Cost Benefit’ analysis to validate proposed changes; and
- Engagement on technical standards should always include the wider property sector e.g. property owners and developers.

### **3. Introduction**

- 3.1. Property Council is the leading not-for-profit advocate for New Zealand’s most significant industry, property. Our organisational purpose is, “Together, shaping cities where communities thrive”.
- 3.2. The property sector shapes New Zealand’s social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand. We aim to unlock opportunities for growth and urban development that meets New Zealand’s social, economic and environmental needs.
- 3.3. Property is New Zealand’s largest industry and fastest growing source of employment. Property provides a direct contribution to GDP of \$41.2 billion (15 per cent) and employment for around 200,000 New Zealanders every year.
- 3.4. Property Council is the collective voice of the property industry. We connect over 10,000 property professionals and represent the interests of approximately 550 members organisations across the private, public and charitable sectors.

### **4. General comments**

- 4.1. Property Council has not made comments on the technical nature of the document but rather provided feedback on the broader issues within the system.

## **5. Separate standards for new and existing buildings required**

- 5.1. Historically, there has been a lack of Government direction with continued changes to building standards, creating inconsistencies and uncertainty in the sector.
- 5.2. For example, when a building standard is released, it is unclear as to whether this is applied to new and/or existing buildings. This creates uncertainty for existing building owners who have tenants that request upgrades due to health and safety concerns.
- 5.3. To reduce the confusion, we recommend that there be separate standards for existing and new building standards – namely an Existing Building Standard (EBS) which is separate from the New Building Standard (NBS). This will reduce uncertainty, time, and cost for owners of existing buildings, that already comply with previous building standards.

## **6. Introduce a predictable review of the New Building Standard ratings system**

- 6.1. There is a serious lack of Government direction in the NBS ratings system. Continued changes to building seismic performance ratings, create uncertainty for projects and long-term commitments related to existing assets. Overtime, this affects the use of buildings and future pipeline of development due to feasibility concerns. For existing buildings, tenants regularly seek provisions requiring lessors to maintain a certain NBS rating over the term of a lease. Each time a material change to standards downgrades existing standards it increases expectations of further building upgrades to match the new standard. This is commercially challenging over the course of a longer-term lease, say for example fifteen years with right of renewal for 6 years.
- 6.2. Typically, large-scale development projects take between 24 months to 10 years. At its core, property development involves enhancing unused land or existing buildings to create exciting new spaces for Kiwi's to live, work, play and shop. By nature, this is a long and complicated process in which construction, otherwise known as 'above groundwork', is one of the final stages in the development process. Developments are a long-term game, which can be greatly impacted with changes to building seismic performance ratings.
- 6.3. To avoid such uncertainty, Property Council recommends that the Government conduct planned reviews of the NBS rating system. For example, such a review could occur every 20 years. Given that the development process (which includes the planning, design, construction and leasing-up phases), 20 years will allow for projects in the pipeline to progress, and to be built to the correct standard, and lessors to make long term lease commitments before ratings are next reviewed.

## **7. Avoid non-binding guidance like the C5 Yellow Chapter**

- 7.1. Improved scientific analysis of recent earthquakes like Christchurch and Kaikoura has been important for improvements in seismic design. The challenge that accompanies this is the frequent changes to regulations, law and technical guidance.
- 7.2. The most problematic has been the C5, Yellow Chapter guidance which is not legally binding. Nonetheless it creates the belief by tenants and board members that they should adopt these guidelines as best practice to mitigate Health and Safety obligations.
- 7.3. We recommend that the use of this non-binding guidance like C5, the Yellow Chapter, be avoided, as it causes tenants and prospective purchasers of buildings to seek the highest possible standard even though it is not legally required.

- 7.4. Guidance like the C5 Chapter has had unintended consequences in terms of cost and perceived importance amongst owner and occupier communities. It should either be issued as legally binding or not issued at all. If it is issued it should be following consultation with the communities impacted. We believe TS1170.5 will cause similar outcomes for owners of existing buildings.

## **8. Introduce tax relief for Seismic Upgrades**

- 8.1. To offset the 'non-yielding' capital cost of seismic upgrades and encourage owners to upgrade earthquake prone buildings, we recommend introducing tax deductibility of seismic upgrade costs for all property asset classes.
- 8.2. This issue is not technical in nature but would fundamentally alter the response of many owners who would find upgrade work more achievable.

## **9. Government undertake a 'Cost Benefit' Analysis**

- 9.1. When assessing new standards MBIE should undertake and publish 'Cost Benefit' analysis to validate proposed changes. This analysis should also consider the probability of serious seismic events occurring over different time frames.
- 9.2. The design and implementation of solutions required to achieve seismic regulations have serious cost implications. This has impacted property owners in Wellington especially. A publicly released cost benefit analysis to demonstrate and encourage owners to pursue seismic upgrades is essential to inform investors and regulators of the long-term financial commitments required.

## **10. Engagement with key stakeholders**

- 10.1. While we understand that this document is technical in nature, it is important to note that changes to technical specifications, affect key stakeholders such as property owners and developers. Changes in building standards, and the NBS rating system create flow on effects to the feasibility of projects and long-term ownership decisions, ultimately impacting the building stock in New Zealand. The current consultation process is not clear and requires amending to introduce a formal and early consultation with key stakeholders and property owners.
- 10.2. We recommend engagement on technical standards should always include the wider property sector e.g. property owners and developers in an early consultation process.

## **11. Conclusion**

- 11.1. While our comments may be out of scope for this consultation, it is important to understand that certainty and clear direction by Central Government is key for the creation and retention of a well-designed, functional and sustainable built environment.
- 11.2. Comments and recommendations are provided on issues relevant to Property Council's members. For any further enquiries, please do not hesitate to contact Sandamali Ambepitiya, Senior Advocacy Advisor, via email: sandamali@propertynz.co.nz or cell: 0210459871.

Yours Sincerely,



Leonie Freeman  
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