



# Cabinet Business Committee

CBC (12) 63

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## Summary of Paper

31 August 2012

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**LATE PAPER:** This paper was submitted after the Cabinet deadline and has been accepted for the agenda by the Chair.

### Canterbury Earthquake: Red Zone Purchase Offers for Residential Leasehold, Vacant, Uninsured, and Commercial/Industrial Properties

Portfolio Canterbury Earthquake Recovery

#### The Minister for Canterbury Earthquake Recovery recommends that the Committee: Background

1 note that in June 2011, Cabinet:

1.1 agreed that insured residential property owners will have the choice of two offered packages:

Either Option A

1.1.1 the Crown will offer to purchase the entire property at the 2007 capital value rating valuation as at 3 September 2010 (less any land and dwelling insurance payments already made). The Crown will also take an assignment of all earthquake related insurance claims. There will be a process through which any property owners who consider that there is a material discrepancy between the 2007 rating valuation and the market value of their property (e.g. because of subsequent improvements) can raise their concerns.

Or Option B

1.1.2 the Crown will offer to purchase the land only at the greater of the following (less any Earthquake Commission (EQC) land payments already made):

1.1.2.1 2007 land value rating valuation as at 3 September 2010; or

1.1.2.2 EQC valuation for the minimum lot size applicable;

1.1.3 the Crown will also take an assignment of the EQC land claim, and landowners will be free to pursue their private insurance company for any other insurance claims they have.

1.2 agreed to the following objectives for determining where rebuilding can occur or is unlikely to be possible in the short-to-medium term:

1.2.1 certainty of outcome for home-owners as soon as possible;

1.2.2 create confidence for people to be able to move forward with their lives;

- 1.2.3 creating confidence in decision making processes (for home-owners, business-owners, insurers and investors);
- 1.2.4 using the best available information on which to base decisions;
- 1.2.5 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]

### **Residential leasehold properties**

- 2 note that 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;
- 3 agree that
  - 3.1 the Crown make an offer to insured owners of residential leasehold interests in paragraph 2 above 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)
  - 3.2 but the offer is 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**

- 4 note that there are infrastructure servicing costs associated with not enabling some property owners to exit the red zones in a timely manner;
- 5 note there are good reasons for uninsured properties (including vacant land) to not receive an offer on the same terms as insured properties:
  - 5.1 it would compensate for uninsured damage;
  - 5.2 it would be unfair to other red zone property owners who have been paying insurance premiums;
  - 5.3 it could create a moral hazard in that the incentives to insure in the future are potentially eroded;
- 6 note that properties with no insurance in the red zones are in a different situation to similar properties in the green zones because:
  - 6.1 there is severe infrastructure damage;
  - 6.2 many surrounding neighbours have either left or are planning to leave;
  - 6.3 there is considerable uncertainty about what will happen to these areas in the future;

**Vacant land**

- 7 note that there are 65 vacant sections in the red zones on the flat land;
- 8 agree that the Crown make 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 per cent) in respect to the land component of the value;

**Uninsured improved properties**

- 9 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;
- 10 agree that the Crown make 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 per cent) in respect to the land component of the value;
- 11 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**

- 12 note there are 22 commercial/industrial properties in the red zones;
- 13 agree that the Crown make 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 per cent) in respect to the land component of the value;

**Other considerations**

- 14 note that in July 2011, Cabinet agreed to contribute up to 50 percent of the legal costs:
- 14.1 to a maximum of \$750 for those insured residential Red Zone property owners who accept the Crown's Option 1;
- 14.2 to a maximum of \$500 for those insured residential Red Zone property owners who accept Option 2;
- [CAB Min (11) 27/13]
- 15 agree that a maximum legal fees contribution be made as part of the offers as follows:
- 15.1 WDC residential leasehold land: \$750 for Option 1 or \$500 for Option 2;
- 15.2 vacant land: \$500;
- 15.3 uninsured: \$500;
- 15.4 commercial/industrial: \$750 for Option 1 or \$500 for Option 2;

- 16 note that in June 2011, Cabinet agreed that landowners will be able to defer acceptance of the offer up to 9 months from the date they receive the offer, with the opportunity to defer settlement up to 30 April 2013 [CAB Min (11) 24/15];
- 17 note that in March 2012, Cabinet authorised the Minister for Canterbury Earthquake Recovery to extend, as appropriate, the:
- 17.1 nine month offer period for considering the Crown settlement offer;
- 17.2 final settlement date of 30 April 2013;
- [CAB Min (12) 10/19]
- 18 agree that final settlement dates for the offers in paragraphs 3, 8, 10, and 13 above will be the same as those noted in paragraph 16, except for the settlement period for vacant land.
- 19 agree that for vacant land, settlement will be required within six weeks of accepting the Crown offer, or the final settlement date noted in paragraph 16 above, whichever comes first;
- 20 agree that the offer periods for the offers in paragraphs 3, 8, 10, and 13 above will be until one month prior to final settlement, consistent with previous offers referred in paragraph 17 above;
- 21 note that the offers in paragraphs 3, 8, 10 and 13 above may require amendments to the existing transaction design for insured residential properties;
- 22 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 paragraphs 3, 8, 10 and 13 above;

### Financial implications

- 23 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;
- 24 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;
- 25 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;
- 26 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 paragraphs 3, 8, 13 and 15 above;
- 27 note that the purchase and associated costs of uninsured improved properties in the red zone were appropriated as part of earlier land zoning decisions;



- 28 agree to the following changes to appropriations to provide for the decisions in paragraphs 3, 8, 13 and 15 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>	-	-	-

- 29 agree that the 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;
- 30 agree that all the expenses (net of insurance recoveries where applicable) incurred under appropriations agreed in paragraph 28 be a charge against the Canterbury Earthquake Recovery Fund, established as part of Budget 2011;
- 31 note that none of the above paragraphs apply to red zone properties in the Port Hills.

Sam Gleisner  
Committee Secretary

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