

Retrofitting – CPR for the Central City?

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Abstract

There is widespread concern within the Christchurch City Council and the wider community that the central city of Christchurch is dying. As a result the Christchurch City Council has been trying to revive the dying „heart’ of Christchurch by a variety of means with limited success. Large areas of the central city comprise old buildings that currently suffer from extensive functional and economic obsolescence. One solution to this problem would be large scale demolition and comprehensive urban renewal based around replacement new buildings. However, such an approach has serious limitations in terms of the resulting loss of heritage and the non sustainable nature of such development. Therefore the preferred solution is to encourage inner city revitalisation by retrofitting the old buildings in a way that is economic for their owners. If these buildings are no longer suitable for their current use an alternative economic use must be found. This adaptive re-use approach poses even greater challenges to property developers due to the requirements of the Building Act 2004. This paper discusses the reasons behind the decline of the Christchurch inner city, evaluates the past and current efforts being made to arrest that decline and makes recommendations for future measures to reverse this decline.

Keywords: *Retrofitting, adaptive re-use, inner city revitalisation*

Introduction

The process of retrofitting has been defined as:

“The extensive renovation to a building often involving major changes to its layout, services, and structure, to enhance its functionality, and update or improve its appeal and marketability with a view to achieve better investment returns and capital appreciation.”
(Jones Lang LaSalle, 2008)

The scope of a retrofit varies widely from project to project and in some cases may be limited to a “seismic retrofit” which strengthens the structure or a “green retrofit” where the focus is on improving the environmental performance of a building. A „full’ retrofit may include both seismic and green elements as well as seeking improvements in many other areas of building performance.

The terms refurbishment, renovation and rehabilitation are also often used synonymously with retrofitting. When the term retrofitting is used the assumption is often made that the building is being retained in its existing use. This is usually the most economic option as it generally requires the least modification of the building. However, in some circumstances it is actually more economic to change the use of the building as part of the retrofit process. The term often used to describe this process is “adaptive re-use”. Reasons for an adaptive re-use approach may be that changes in the market and location render the current use economically obsolete or alternatively that the building may have features or attributes making it particularly attractive for conversion to an alternative use. For the purpose of this paper the term retrofitting will be used to describe the general process of upgrading a building including the process of adaptive re-use.

This paper seeks to examine the process of retrofitting as a means of achieving inner city revitalization in the city of Christchurch. Christchurch is a comparatively small city of approximately 370,000 people. The population has shown steady growth which is expected to continue but despite this growth there has been concern that the central city was not sharing in this growth and was actually in decline. These concerns were first expressed in the 1980’s when the impact of the suburban malls on CBD retailing was recognised. As a result the 1986 City Plan expressed the objective of limiting the growth of suburban centres and retaining the Central Business District (CBD) as the principal commercial administration and retail focus of the region.

However, by the late 1990’s politicians and the wider community recognized that the central city of Christchurch was still in decline. In July 1999 workshops on the subject were facilitated by Professor David Yencken. The Mayor at the time, Garry Moore, spoke in the media of the dangers of Christchurch becoming a ‘donut city’ with a hollow core and was vocal about the need to reverse this trend. Under his leadership inner city revitalisation became a central focus of the Christchurch City Council. The Council appointed a project manager for inner city revitalisation and in December 1999 they formally set up a committee of 12 people that were called the Mayoral Forum to investigate and help ‘drive’ the process. In 2000 wider community consultation was carried out in the form of survey questionnaires and public meetings.

The Central City Revitalization Strategy

The Mayoral Forum was given a budget of \$250,000 for its first year and was tasked with investigating options for inner city revitalisation and to consult with the community. The outcome of this process was the “Christchurch Central City Strategy – Stage 1” (Christchurch Mayoral Forum, 2001). This report which was formally adopted by the Council in 2001, outlined the Mayoral Forum’s recommendations for developing a strategy for central city revitalisation, along with some short-term high priority projects to be undertaken over a five year period. Included in the report were the “Core Principles for Project Development and Evaluation.” These were:

- East Side Focus
- Residential and Business Development Opportunities
- Improve Public Spaces

- Integrated Development
- Sustainability

Stage 2 was to be developed later in 2001 and was to set out more detailed means of achieving the vision. However it was not until September 2006 that the “Central City Revitalisation Strategy – Stage II” was formally adopted by Council (Christchurch City Council, 2006).

The Greater Christchurch Urban Development Strategy

This strategy was launched in June 2007 to guide urban development in the greater Christchurch area. It was developed over three years as a collaborative effort by the Christchurch City Council, Waimakariri District Council, Selwyn District Council, Environment Canterbury and Transit New Zealand. Major features of the strategy are to put in place an urban fence to prevent sprawl and to accommodate the bulk of anticipated urban growth within the existing city by a process of intensification. A key part of this strategy is the successful implementation of the “Central City Revitalization Strategy”.

The Central City South Concept and Vision

This was adopted by the Christchurch City Council on the 29 May 2009 and is largely concerned with the development of four sites that were purchased from local developer David Henderson in August of 2008. It also plans for the retrofitting of the old Civic Offices, the Bus Exchange and development of a Council owned car park.

The above discussion of the relevant planning documents sets out the background and genesis of the inner city revitalisation efforts in Christchurch. The main document of interest is The Central City Revitalisation Strategy – Stage II document (The Strategy) which sets the blueprint for Council action. This will be examined in more detail later in this paper and consideration will be given as to what role retrofitting could play in central city revitalisation. Consideration will also be given to the impact of the earthquakes that have rocked the Christchurch CBD since September 4th 2010.

Why is the Central City in Decline?

The reasons for the decline of the central city are varied and complex. Many of them are not unique to Christchurch, but are challenging other communities around the world whose city centres are suffering decline. In terms of Christchurch some of the reasons are general economic or social trends outside the control of the City Council while others are related to planning and investment decisions under the control of Council. Adding to the problems has been the recent earthquake in Christchurch which although it caused no loss of life has resulted in extensive damage to both the infra structure of the city and some of its buildings. Ultimately the challenge for Christchurch, like other cities around the world, is to ensure that the CBD remains relevant and competitive. It must remain

competitive with CBDs in other cities and it must also remain competitive with suburban space that serves the same function and markets.

Location is not a fixed attribute but changes over time. There are numerous “ghost towns” within New Zealand and overseas that are testament to the fate of urban settlements which lose their relevance and competitive edge. The existence of “ghost towns” and abandoned inner city neighborhoods are extreme examples of changes in locational attributes. It is not suggested that this will be the fate of Christchurch, but more realistically there is the likelihood that Christchurch will continue to evolve into a multiple nuclei city with several suburban commercial hubs competing with the CBD.

Christiansen (Christiansen, 1991) sets out the following main functions for cities:

- Commerce
- Industry
- Administration
- Education and cultural
- Health
- Recreation

Clearly these are city-wide functions but traditionally the CBD has played a key role in the performance of these functions. The current role of the Christchurch CBD will be examined briefly in terms of the various generic functions identified above in order to identify reasons for central city decline.

Commerce

Commerce basically relates to the exchange of goods and services. Historically cities played an important role as a market town that allowed the exchange of goods between the rural hinterlands and their urban centres. It is interesting to note that until comparatively recently both the sale of livestock and produce took place in central locations in Christchurch before relocating to cheaper sites on the outskirts of the city. Ironically, there have been attempts to establish “farmers markets” as an inner city revitalisation project which have failed. In the “knowledge economy” of today the rural influence on Christchurch is far less visible than it was. However, it should be noted that the Christchurch economy is still closely tied up with its rural hinterland. For example, the city economy has benefitted greatly from the boom in commodity prices for dairy products in particular. In modern times the commercial role of a city CBD is largely measured by the area of office space and the size of any retail shopping areas.

Significant amounts of CBD office space were built in the 1980’s and this led to a massive oversupply. Vacancy levels peaked in 1993 when they reached levels of over 30%. This space has gradually been taken up over the last 20 years but until recently market rents were at levels which did not make new development feasible. As a result no significant office development took place in the Christchurch CBD until 2007 when the IRD Building was completed. To a large extent the CBD office market is characterized by high levels of “churn” as there is a limited pool of office tenants. This

means that typically when an office tenant relocates to new space they leave behind vacancies in their previous buildings. Most, but not all of the recent relocation of major tenants has been driven by the desire to relocate to newer, better buildings that often have a „green’ building tag. The inventory of vacant space is currently on the rise as new stock is being added at a rate that exceeds demand. As a result the amount of vacant floor space increased in the last year by approximately 10,000m² to a total of 63,778 m² (Colliers, 2010). Developers are now showing caution in terms of developing more CBD space and there remains a number of cleared sites that await potential office development. Any new developments of a substantial nature are likely to exacerbate CBD vacancy levels in lower grade buildings. Making the situation worse is a strong trend towards office decentralisation.

This trend towards office decentralisation first became apparent in the early 1990’s when a number of CBD office tenants began relocating to new low rise buildings located along the major arterial routes of Blenheim Road and Moorhouse Avenue. This trend has gathered pace with the recent development of large suburban office „parks,’ some of which are close to the central city. These office parks are competing strongly with current and future office space in the central city due to the perception that they provide better accessibility and cost effective space due to lower car parking costs, lower operating expenses and a superior work environment. The supply of this suburban space has clearly exceeded current demand so that there is another 13,500 m² of new vacant space in the inner city suburb of Addington alone (Colliers, 2010).

There are a number of trends that are likely to reduce the demand for CBD office space. With changes in technology the ability for office work to be done at home or at suburban locations has increased. It is now practical to outsource commercial work to cheaper locations, be that a call centre in the suburbs, or office workers in India. Even the storage of information is now being decentralized with records archived off- site in cheaper locations or digitized in electronic form. Work practices such as hot desking or „virtual offices’ are also now more common. The number of large corporate tenants with head offices in Christchurch is not large and has been steadily declining.

The other major area of commercial activity performed in cities is retail. In a way similar to the office market there has been a strong trend in Christchurch towards the decentralisation of the shopping function. This has meant that retail development in the central city has also been limited despite significant efforts by the Council to stimulate it. The central city is surrounded by a ring of suburban shopping malls that have been expanding aggressively and successfully competing with inner city retailers. The malls are able to provide free car parking, a climate controlled environment that is not subject to weather extremes, a crime free and safe environment, week end and late night shopping, and aggressive coordinated marketing. Shopping malls in New Zealand also have the advantage that they usually have supermarkets as their anchor tenants. As well as the threat posed by the malls there has also been a rapid increase in the amount of retail activity being carried out along arterial traffic routes such as Moorhouse Avenue and Blenheim Road. Areas which were once industrial now have a substantial retail focus.

Riccarton Mall which is located close to the central city is now widely recognized as the pre-eminent shopping destination rather than the central city (Vesey, 2011). Retail in the central city has been characterized by vacant shops and stagnating or falling rents. Over a long period of time the central city has lost a number of large anchor tenants such as Arthur Barnett, Beaths, DIC, Woolworths, and Sony to name a few.

This trend shows no sign of abating and may accelerate due to the impact of the earthquake which has seen the turnovers of retailers plummet as a result of earthquake damage to buildings. Central city retailers appear especially vulnerable due to the depressed retail situation that was already occurring as a result of the Global Financial Crisis (GFC) and the resulting recession.

Industry

Industry is primarily the manufacture or processing of goods. Manufacturing has been an important part of the Christchurch economy since its founding with initial industry focused on processing primary produce. In later years a sizeable clothing and footwear industry flourished which subsequently was hard hit by economic reforms and competition from cheap imports.

The central city used to be home to a number of large industrial concerns such as Aulsbrooks, Atlas, Lichfield, Andrews and Bevan and Gough, Gough and Hamer. Large scale manufacturing has since left the central city with the exception of the Canterbury Brewery. Most of the industrial activity remaining in the central city is small scale and is service oriented rather than manufacturing based.

This remaining industrial activity is under pressure to move out of the central city as competing land uses appear to be favored by the City Councils inner city revitalisation strategy. It is not clear whether industry is meant to play a role in the central city economy. It is interesting to note that a report prepared in 2001 called "A Central City Renaissance Through Residential Consolidation" (Christchurch City Council, 2001) highlighted a shortage of industrial sites in the inner city. Subsequent to this report the supply of industrial land was further reduced as the Council rezoned land from industrial to residential on the east side of town.

Administration

This function clearly involves central and local government. The central government sector is comparatively small in Christchurch particularly if compared with a city like Wellington. However local government is a large employer with both Environment Canterbury and the Christchurch City Council being largely based in the central city.

While there has been a degree of decentralization with both central and local government using local service centres to better meet the needs of their „clients’ the bulk of the administration function is still based around the central city. There was considerable concern when it appeared that the Inland Revenue Department might relocate outside the

central city but eventually they occupied a new office tower built specifically for their occupation in the CBD.

The administration sector also includes the justice system and the city location of the various courts in the CBD provides a valuable anchor to the central city.

Education and culture

This function includes all the various educational facilities including schools, colleges, polytechnics, and universities.

A significant and in hindsight crippling blow to the central city was the decision to relocate the University of Canterbury from its central city location to the outlying suburb of Ilam which was done in the 1970's. A second but much smaller university is also located some distance away being approximately 20 kilometres west of Christchurch at Lincoln. However, the Christchurch Polytechnic is located in the central city, although it does have an additional smaller campus in the suburbs.

It is recognized that the lack of students in the central city removes much needed vibrancy and energy and the Council tried to facilitate the establishment of a national music school in partnership with the University of Canterbury on a central city site. However, this project foundered over public opposition to the choice of a heritage site and led to a bruising and often acrimonious dispute through the legal system. The attempt to reestablish a significant university presence in the central city was a meritorious one but it appears unfortunate that alternative sites were not adequately investigated or promoted as compelling options.

Outside the Universities the establishment of the Unlimited and Discovery schools has been a positive development for the central city as has the growth in English Language Schools. Between 2000 and 2004 the amount of office space used by the education sector (including language schools) more than doubled to reach 40,000sm or approximately 10% of the office building stock at the time. (Fright Aubrey, 2007). However, since the peak of 2004, the area occupied by education has decreased both in terms of the occupied floor area and proportion of total occupied space although this trend may be reversing.

A current proposal that is being tested for feasibility is the establishment of an "International Student Village" to attract an additional 1000 students to Christchurch. If this is successfully established it will clearly have substantial benefits for the central city.

The central city still retains a pre-eminent position as the cultural hub of Christchurch as it remains the location for the Central Library, Art Gallery, concert halls, and live theatres.

Health

This includes the hospitals, clinics and other medical services provided by both the public and private sector. Christchurch Hospital remains on a site within the central city and is consolidating operations on the site. Although the hospital is right on the edge of the central city it still contributes significantly to central city employment.

Recreation

Within a city the recreation function can be divided into two general groupings although inevitably there is a degree of overlap between the two groups. The first group comprises leisure activities primarily servicing the resident population. These are such things as cinemas, bars, restaurants, sports grounds, golf courses, swimming centres etc. The second group is leisure activities primarily aimed at the tourist and what can loosely be termed “tourist attractions”.

Traditionally the Central City was a major entertainment centre with high concentrations of bars, movie theatres and dance halls. The bars still remain and have become concentrated in three entertainment precincts. These three precincts are the part of Oxford Terrace known as “The Strip” and the SOL Square and Poplar Lane areas. Most of the movie theatres have now relocated to the suburban malls.

The tourism function has been one area of the CBD that has shown steady growth with the recent construction of six new hotels. The central city retains a pre-eminent position in terms of visitor accommodation. This has largely been market driven rather than Council initiated but the Council has played an important role in promoting the city and providing important tourist “infra structure” such as the convention centre. The location of the convention centre in the CBD and planned expansion of this facility should help keep the CBD as a prime destination for visitors. In addition to the hotels there has been a significant increase in the number of serviced apartments and backpacker establishments.

Competing accommodation in the suburbs and near the airport has been limited largely to the proliferation of motel type accommodation. It is only a matter of time however before an attempt is made to establish hotel type accommodation close to a mall or by the airport. This has already been done in Riccarton Road on the site of the old Nancy’s Hotel and a hotel has also been similarly proposed for the old sale yards site.

Christchurch is seen as the tourism gateway to the South Island although this position is under increasing competition from Queenstown. However, tourism will remain a key driver of the Canterbury economy. It should also remain a major function of the CBD.

Residential

The growth in the central city population exceeds that of the city as a whole, showing that the central city has been successful in capturing market share. There are a number of factors driving the increase in inner city housing which is a sub market of the general Christchurch housing market. Thus it responds to many of the same drivers as housing

demand in general such as population growth, household formation and increases in housing affordability. In addition as a particular sub market it is also driven by the particular locational attributes of the central city. For example as traffic congestion gets worse the benefit of being able to walk to work in the central city gets more attractive or as the amenities of the central city such as entertainment and retail facilities improve so does the appeal of the central city. Demographic and social trends also have an impact on the relative demand for central city living. For example smaller households with no children are better suited to inner city living than family households. Inner city housing tends to be multi-unit which suits some residents more than others. Such housing can have the advantage of allowing a “lock and leave” and easy care lifestyle not possible with traditional low density housing.

The housing market went through a boom period which was significantly boosted by investor driven demand for investment housing stock. With the absence of easy capital gains and changes to the tax laws this segment of the housing market has dried up which is impacting inner city housing growth.

Affordability has become a key factor in the housing market with concerns that high prices have made homeownership unattainable for lower income households. In terms of the affordability of inner city housing there are additional issues. Well known Christchurch architect Peter Bevan who has had extensive experience with inner city developments has stated that there is an affordability gap. In his view as reported in the Press (McCrone, 2010) the cost to produce a reasonable quality inner city flat is \$150,000 more than what the market can afford to pay. He is quoted as saying that the “cost structure of inner city building is just all wrong” and needs intervention by local authorities or a government housing corporation in terms of funding the housing developments. Bevan asserts that there is a huge market for inner city flats priced between \$250,000 and \$300,000. No market studies have been done to test whether this is true or not but work done on the apartment market in Christchurch (Nahkies, 2001) would indicate that inner city housing must be competitively priced against suburban houses or inner city townhouses in order to capture market share. This study also found that the competitive edge enjoyed by inner city apartments in Auckland and Wellington was considerably weaker in Christchurch due to a number of factors.

Transportation

Cities often owe their location to the necessity to fulfill the transport function for both people and goods. For example, the major cities in New Zealand were established in locations that recognized the imperative of a safe harbor in order to facilitate sea transport links. Later railways became significant, and today air transport has a vital role to play.

In terms of the city as a whole the International Airport is a key asset that is vital for tourism. Unlike Auckland there has not been significant commercial development around the airport but that is beginning to change with new subdivisions occurring at the airport.

Unfortunately unlike Wellington or Auckland there is no port located in the CBD of Christchurch and the Port of Lyttleton is some distance away. This makes it harder for the CBD to capture the benefits of the growing cruise liner trade and robs the CBD of the amenities provided by a harbor location.

The Christchurch Railway station has relocated out of the CBD to the suburb of Addington. Buses are the primary form of public transport and retain a strong presence in the CBD due to the location of the Bus Exchange.

In general then, it should be recognized that the forces of decentralization will continue to erode the traditional role of the CBD particularly in relation to retail and office uses. However, rather than dying, the central city is evolving with tourism, hospitality and entertainment becoming more and more of a focus for the CBD. Business numbers and employee numbers will continue to increase within the CBD although at a rate that is below that of the rest of the city. This means that in relative terms the CBD will decline and the retail sector in particular will be under continued pressure from mall development and will struggle to recover from the affects of the earthquakes. The growth of hotel accommodation in the central city has been positive and tourism will become increasingly important to the Central City as long as hotels are kept out of suburban locations. In order to achieve the vision of central city revitalisation contained in the Strategy significant growth in the central city residential population is required to establish a critical mass capable of supporting increased commercial activity.

Is the Revitalisation Strategy Working?

This is a question that is difficult to answer and clearly will depend on the choice of benchmarks or measures of success. As a starting point an analysis of the “Targets” contained in the Strategy can be examined along with the “Action Plans” to achieve those targets. In Section 5 of the Strategy the following “Priority Projects’ are listed:

- Increasing the number of residents – 30,000 by 2026
- Growing business
- Enhancing our public spaces
- Redeveloping underutilized sites
- Improving transport

Section 5 also lists the capital projects to revitalise the Central City as follows:

- A new or expanded central bus exchange
- Central City transportation projects
- The Avon River Strategy
- The City Mall upgrade
- New Civic Offices

Section 5 then goes on to lay out an action plan to support each of the “Priority Projects”.

Support Business

Under “Our Actions to Support Business” are a number of initiatives. Of note was the intention to investigate the setting up of a “Central City Development Authority”. Scoping work on this was to be done in 2006 and a report on options was to be presented in 2009. This work was also given priority in the Stage One Strategy of 2001. This report does not appear to have been completed which is unfortunate as options need to be considered to enable the Council to take a more active role in central city commercial developments. For example, an alternative to joint ventures is to undertake the development themselves via some form of Council Controlled Organisation (CCO). Examples of such organisations are the Auckland Waterfront Development Agency and Auckland Council Property Limited which have been set up by the new Auckland Council. Such an organisation could be specifically tasked with developing property in the central city with the aim of helping revitalise the inner city. They could also have as their objectives the creation of affordable housing and the conservation of heritage buildings. The advantage of such a Council organization is that they could accept a lower level of profit or even an element of loss in order to achieve other significant public good benefits. By accepting a lower margin and by having access to capital at a lower cost than private developers they would be able to undertake developments that were feasible for them but infeasible for private developers. This option was first suggested by the Mayor, Gary Moore, back in 2000 and appears to have been under investigation ever since.

Another action to support business was the introduction of incentives to encourage Central City office development. This was to be done in 2008 but has not yet been done although work is currently before Council for consideration.

In order to encourage the development of new office space the Council planned to review and revise the “Development Contribution Policy” as the costs of development are increased significantly by the imposition of impact fees in the form of “Development Contributions”. It is unfortunate that the Council changed their approach to the levying of impact fees via a process that used the City Plan and levied “Financial Contributions” to one that is now levied under the Local Government Act in the form of Development Contributions. Either approach is allowable but the use of Financial Contributions is more flexible and was used in the past as an incentive to achieve environmentally desirable development such as the adaptive re-use of heritage buildings.

Care for the Environment

Under “Actions to Care for the Environment” there is a goal of encouraging energy retrofits of old houses. This is somewhat surprising as the L4 zoning encourages the demolition of the old houses and their replacement with modern multi-unit developments

Also under this heading is the action to “encourage redevelopment of under- utilised sites”. In order to achieve this in 2008 the Council was to “Scope a greyfields redevelopment incentives programme focusing on sustainability”. This programme was then to be launched in 2009. This has not been done yet.

Another action was to “build a new civic office building that is a model green building”. This was to involve the selection of a site in 2006, design work in 2007 to 2008 with construction to begin in 2010. In reality, the site was not chosen until 2007 but construction was still completed in 2010. This was well ahead of the timetable in the strategy and lends support to the concerns at the time that the project was being rushed for political reasons.

The building was able to achieve a 6 green star rating which certainly makes it a model green building and it was a good example of retrofitting an obsolete building. However, it has proved unsatisfactory in other ways. It suffered significant damage in the earthquake, parking has been inadequate and there has been insufficient space to house all the Council staff. This was despite the fact that the original cost estimate increased from \$54 million to \$113 million.

Of perhaps more long term concern in terms of inner city revitalization was the choice of site. The shift to Hereford Street has left a big „hole’ in a part of town that is badly in need of economic activity and risks shifting the commercial „centre of gravity’ outside the traditional boundaries of the core of the city. This may well encourage further growth and development to the west of the city, particularly with the large site at King Edwards barracks still awaiting development. It also removes the ability to establish a Civic Precinct similar to that of Auckland and Wellington. This would have been possible by using the original site and utilizing a campus approach with multiple buildings. An alternative option would have been to use the Orion site as was originally proposed and which would have reinforced the east of the city which is a goal of the strategy. The Orion site also had sufficient space to allow the creation of a civic precinct.

The location of major capital works projects are always complicated decisions, with often conflicting objectives. However, long term strategic considerations need to be given weight as well as operational and funding operations. Council influences location considerably by way of its major capital works and operations. For example, the construction of the convention centre in the CBD helps to maintain the CBD as a tourist destination while the building of the Art Gallery reinforces the cultural precinct. Unfortunately many of the Councils other capital projects have been less beneficial to inner city revitalization. For example, the decision to put the Westpac Trust Stadium out at Addington was a lost opportunity to reinforce the role of the central city as an entertainment centre.

Increase Residents

Under the heading of “Our Actions to Increase Residents” there are a number of proposals including “Acquire and redevelop strategic, underutilized Central City sites”. This was clearly with the objective of developing sites in Latimer Square as the Council

also proposed to “Initiate a public-private project to redevelop an underutilized site in Latimer Square” in 2009.

However, in August 2008 the Council controversially acquired 5 sites from David Henderson for \$17 million. This purchase was controversial for a number of reasons – the price was considered high, the decision was rushed and there was debate about the strategic importance of the purchased sites.

Whatever the merits of the purchase it has clearly indicated a change in focus from Latimer Square to South of Lichfield. Although the Strategy has as an action “to encourage redevelopment to the Central City South area” the approach is one based on public space improvements and zoning changes not site purchase and development. Subsequent to the purchases, a South City Vision and Master Plan was developed for the South of Lichfield area which encompasses considerable new mixed use development outside the current core area. This development seeks to turn what is an industrial area into a mixed use development based on the vision of David Henderson.

The Council also has the action of “Amend the City Plan to improve the design of new developments”. This focuses on the L3 and L4 zones and is an important piece of work to overcome current deficiencies in the design of multi unit housing in the inner city. For inner city housing to be an attractive option it must be well designed. Action was supposed to lead to a Plan Change in 2007 however the relevant changes which are contained in Plan Change 53 are not yet operative.

Another action under the heading of increasing residents is to “Begin construction of the Turners and Growers redevelopment project”. This was supposed to have occurred in 2006. This project was an attempt to kick start inner city housing by the Council. They purchased a 1.75ha site in the central city in 2002. This was then rezoned to allow residential development and developers were invited to present their vision for the site. The Council entered into an agreement in 2006 with a developer based on plans to establish a “high quality” residential village on the site along with a boutique hotel and urban winery. This was a flagship development for the Council that was seen as a key to their revitalisation strategy. The developer said at the time that the development would take between 5 to 7 years depending on the actual rate of demand. As yet no development has been started on the site and there is the possibility that the Council may buy back the site from the developer in 2011. The site was cleared of buildings at the expense of the Council and is currently used as a car park.

A further project to help increase central city resident numbers is to “Create incentives to produce affordable housing”. Work on this was supposed to commence in 2009 but no results have been made public yet. This is an important piece of work in terms of achieving the goal of 30,000 residents in the central city.

With the rapid appreciation of house prices in what has now become known as the housing bubble serious issues have become apparent in terms of housing affordability. This has been a world- wide trend as illustrated by analysts Wendell Cox and Hugh

Pavletich in the Annual Demographia Survey which measures affordability on the basis of the ratio of house prices to annual income. This ratio has increased steadily to the point that some commentators now consider it a crisis in terms of the ability for potential first home buyers to be able to enter the housing market. Commentators such as Pavletich and Owen Mc Shane have been vocal in their condemnation of expensive red tape in general and “smart growth” policies in particular, which they blame for the rapid escalation in section prices. They advocate a freeing up of the land market to increase the supply of ‘cheap’ land on the periphery of cities. This is in direct contrast to the goals of the Greater Christchurch Urban Development Strategy which seeks to direct 60% of future growth into the current city area while allowing limited greenfields development in a small number of specified locations. To achieve this will require considerable intensification of current urban development within the city.

The reasons for decreasing affordability are likely to be far more complex than just that of containment as argued by Pavletich. For example, Small (Small, 2007) has identified a number of significant social and demographic trends that have allowed affordability to steadily decrease while having no major detrimental impact on the housing market. However, as he points out many of these trends such as increasing female participation in the work force have now reached their practical limit and the future debt servicing ability of households in the future is likely to be more constrained. The relationship between intensification and affordability is certain to be the subject of ongoing political debate.

Actions to Improve Transport

Under the heading of actions to improve transport the Council had the action of “Re-establish two way traffic on Lichfield Street”. This was to be done in 2007 but is yet to be achieved. Numerous studies since 1992 have stressed the need to make the car less dominant in the inner city and consultants such as Yencken, Athfield and Gelh have all urged for changes to the one way street system which has been seen as detrimental to inner city revitalization.

A further action to improve transport is to provide a “new or expanded Bus Exchange”.

The building of the original bus exchange provided an opportunity for a developer to undertake the Crossing development and provided a target market for a food court. However, the location of the Bus exchange on Lichfield Street has been an impediment to the return of Lichfield Street to a two way street and further damaged the ambience of this area of town. The eventual relocation of the Bus Exchange will leave a vacant hole in the form of the existing building that may not be easy to find a tenant for.

The impact of the new Bus Exchange in terms of central city revitalization is hard to gauge. While it is promoted as an inner city revitalization project, it ultimately appears to be more a significant part of the regional transport strategy. The initial budget for the bus exchange was for \$59.7 million in 2006 which by 2009 had risen to \$119 million. A large part of the cost increase is attributable to the decision to put the bus exchange underground with a central city park on top. It is also intended to strengthen the

foundations of the exchange to allow tall buildings to be built at a later date with the Council looking to sell the air rights for an office tower or hotel. Another option being considered is to build a new central library on the bus exchange site. It can be argued that both options have drawbacks from an inner city revitalisation perspective and that alternative sites may have been better. For example, it would make sense to put the bus exchange south of Lichfield on the Welles Street block. Such a location would be cheaper and has good linkages with the Polytechnic, AMI Stadium and South City. It would also help keep the noise and smell of the buses out of the city centre. Being located in a less pedestrian oriented area would also allow the exchange to avoid the huge cost of going underground as proposed for the current site. Another alternative site would be the Turners and Growers site.

Another action was to “better manage parking in the Central City”. Despite this action parking remains a major issue. In a study done by Lincoln University in 2010 where inner city retailers were surveyed, parking was still identified as a major issue for retailers (McDonagh and Heaney, 2010). Issues remain about both the cost and accessibility of parking in relation to shops. The ability to park for free close to shopping destinations is seen as a clear competitive advantage for the malls.

Actions to Enhance Streets and Open Space

The Council has made good progress in relation to many of the actions proposed to enhance streets and open space. By doing this the Council can influence location by their investment in public spaces and this is an important part of the Strategy. Increased emphasis on good urban design and investment in CBD streets and public spaces will help to provide an attractive working and living environment. Notable projects have been the refurbishment of the City Mall, Worcester Boulevard, High Street and more recently Hereford Street.

Such investment can pay rich dividends when it encourages economic activity and reinforces or fits in with existing locational attributes. For example, landscaping the Oxford Terrace area provided encouragement and impetus to private sector development of the “Strip” hospitality precinct. The “Strip” features outdoor dining on the widened footpaths but this is also made possible by the pre-existing locational attributes that the sites are north facing and thus sunny. They are also protected from the cold easterly winds that plague Christchurch. In contrast, a major makeover was done of Cathedral Square but the community is still heavily divided as to the success of this public space and it has failed to act as a catalyst for private sector development such as has occurred elsewhere.

One of the actions under this section is to “improve the lanes within the Central City,” and to achieve this the Council has developed and adopted a “Central City Lanes Plan”. There have been two developments that have significantly added to inner city revitalization by the good use of lanes. Each development is based around heritage buildings and existing and newly created lanes. As a result two separate hospitality precincts have been created known as SOL Square and Lichfield Lanes. In each case the

developers were able to buy up a significant number of adjoining properties at modest prices and were then able to unlock value from the amalgamated sites by utilizing what were previously basically service lanes. Both developments have enjoyed a certain amount of commercial success and are generally considered to have added much need vitality and diversity to the central city streetscape. The Council contributed money to upgrading the lanes and generally assisted the developers where possible in a partnership approach.

The Council is clearly seeking to emulate the success of these projects via the Central City Lanes Project. To do this they need to identify areas with hidden potential and encourage the owners to unlock this potential. The Central Lanes Project has much to recommend it but should not attempt to blindly duplicate the success of Lichfield Lanes and SOL Square. For example detailed analysis of Woolsack Lane has been done for the Council (Boffa Miskell, 2008) with the goal of creating a hospitality “destination” when a closer examination of the locational attributes would suggest it could form the nucleus of an attractive and desirable living precinct more in keeping with the current Council Strategy. There is also the danger that in duplicating the hospitality developments already based around the lanes that the existing developments are undermined unless there is clear demand for additional hospitality outlets.

Actions to Advance Heritage and Arts

Under this heading of significance is the intention to “Preserve and facilitate the adaptive re-use of historic structures”. The Council has had an active heritage grant programme to provide incentives for heritage buildings and the goal in the strategy is to upgrade two heritage buildings per year. Given the need for substantial seismic upgrading this is insufficient when the number of heritage buildings is considered and would mean that considerable numbers of buildings will still not be upgraded when the mandatory deadlines are activated.

This section of the strategy also proposed significant changes to the City Plan in terms of regulatory protection by 2008. This has not been achieved.

In summary the Council is now nearly 10 years into a 25 year strategy. Although the Council has made good progress in some areas an analysis of the Strategy Action Plans shows that progress has generally been slow and many of the outcomes and milestones have not yet been achieved. The reasons for this lack of traction and slipping timetables are many and varied but they are clearly a mix of factors within the control of Council and factors such as the GFC which are outside their control.

The central city is still in relative decline and this trend is likely to continue. Although Christchurch is highly unlikely to become a “donut” city the Central City may suffer a period of economic stagnation. This will lead to declining rents and property values, particularly as the impacts of the earthquakes become apparent.

The current strategy appears to be heavily focused on creating new space within a wide area of the Central City. Such new development appears to be largely speculative and not supported by any in depth market analysis. There are a number of gaps in the knowledge base which if filled would give a clearer picture of the potential demand for new development on greyfield sites or the retrofitting of existing buildings. For example, it would be valuable to have information on the following:

- An analysis of the demand for inner city living
- Location and housing preferences of inner city residents
- An analysis of the demand for different types of mixed use developments
- An analysis of the demand for inner city industrial space
- An analysis of retail location decision making
- An analysis and identification of those buildings suitable for retrofitting

The general demand for inner city living has been the subject of much conjecture but limited rigorous research. This is surprising given that there is a clear goal expressed in the Strategy to have 30,000 residents housed within the inner city by 2026. A report prepared in 2001 (Nahkies, 2001) found that inner city living was clearly a submarket of the greater Christchurch housing market and was more diverse than Auckland and Wellington with large numbers of single housing units and low to medium density town houses rather than the apartments prevalent in Auckland and Wellington. The report also identified significant differences between the owner occupier market and the rental market in terms of the target market, product type and location. The report while identifying the drivers of demand did not attempt to directly measure demand. In 2009 the Council Commissioned a report by Simes (Simes, 2009) which did attempt to measure demand but did so based largely on an extrapolation of past growth. This report estimated a growth in inner city living of 17,000 by 2026 which does raise doubts as to the ability of the Council to achieve their target of 30,000 residents. Given the general downturn in the housing market as shown by the decline in building consents, the drop in sales volumes and the reduction in prices, the estimates in the Simes Report are now likely to be over optimistic. This is particularly the case given the drop off in investor demand for housing which has been a major driver of the inner city housing market. This investor demand was largely based around the use of negative gearing and aggressive marketing from developers. This market is now subdued due to changes to the tax legislation and recognition by the market that significant capital gains are unlikely to occur anytime in the near future.

Research is needed to confirm whether there is an affordability gap in terms of inner city housing. This appears to be the case and if true then in the absence of affordable housing incentives it appears even more unlikely that the target for 30,000 inner city residents is achievable. There is a clear assumption in the Strategy that inner city residents will revitalise the inner city by creating the 24 hour city desired by the strategy and by providing a residential catchment that will supply workers and shoppers for the central city. This is highly valid as it has been estimated that the average „spend’ of a central city resident is five times that of a central city worker. However to be most effective

residents should be located in the CBD as much as possible to prevent leakage to the suburbs. The advantage of locating residents in refurbished CBD buildings is clear compared with more peripheral greyfield sites.

The Council is now an owner of a significant number of development sites in the Central City which they are seeking to develop in partnership with the private sector. The Turners and Growers site remains underdeveloped and may have to be purchased back by the Council. In addition the Council already owns 7 other significant redevelopment sites. These being the four sites purchased from David Henderson and the now vacant old Council building, the Tuam Street car park, and the soon to be vacated Bus Exchange. Plans put forward in the Stage II Revitalisation Strategy to target Latimer Square for redevelopment appear to have been put on hold presumably with the change in emphasis to concentrate on Central City South Project.

The Council has taken on a pioneering role by choosing redevelopment sites that have a number of disadvantages. The areas purchased have little in the way of residential ambience and in Welles Street the Council is trying to turn what is currently an industrial area into a residential area. In the process it will displace existing tenants and reduce the number of businesses in the central city. A better strategy would be to target areas that are within close proximity to the core of the central city.

In the current market they may struggle to find suitable developer „partners’ to share their vision unless considerable financial concessions are made to „sweeten’ the deals. The type of difficulties the Council may face is illustrated by the lack of progress in the Turners and Growers „development’. A more direct involvement in development may be required rather than partnering with developers.

As an alternative to new development the Council should also explore the potential for retrofitting existing buildings as this has a number of advantages. Candidates for retrofitting will mostly be in the city core. Without retrofitting, there will be a pool of buildings that if left vacant will soon negate the good work done by the Council to improve the streetscape. The ambience created by these buildings will be one of urban decay rather than an exciting and vibrant CBD. The retrofitting of buildings has some clear environmental benefits over new buildings (McDonagh and Nahkies 2010). For example retrofitting saves the embodied energy contained in the buildings, avoids the environmental costs of demolition and in the case of heritage buildings has social benefits.

The retrofitting alternative will not be without problems and challenges. These are discussed in the next part of this paper

The Challenges and Opportunities of Retrofitting

Retrofitting is a form of property development with all the attendant challenges and risks that attach to the property development process. To achieve success in property development writers such as Peiser (Peiser & Frej, 2003) have stressed the need to gain control over the following four inputs to the property development process:

1. Site
2. End User
3. Capital
4. Knowledge

Like all forms of property development the retrofitting process must control and integrate all four factors to be successful. This is discussed below:

‘Site’ Selection

When selecting sites suitable for retrofitting the ‚site’ is clearly a combination of the land and the existing buildings. As a result when selecting good candidates for retrofitting the process will include elements of both site analysis and building analysis.

Location has been described by Pearson (Pearson, 1991) in terms of a set of linkages and externalities (both positive and negative). For example, a property may be located near a major amenity such as the Polytechnic providing potentially good linkages with the student population or it may have good views over the Avon River – an example of a positive externality. Sites on the east of the City near Latimer Square have been hard to develop because of the perception that it is an unsafe area – a negative externality. An analysis of the location will indicate which uses are a logical ‚fit’ for the site. These uses may or may not be the existing use. Usually the zoning of the property will be a key attribute to be considered along with the need to get any resource consents needed to allow a use.

Having considered the location and the site, the building itself also needs to be analysed in terms of its potential to benefit from retrofitting. A range of options can be considered based on the existing use and also potential changes of use. Each of the uses needs to be tested via a feasibility study to arrive at the “Highest and Best Use” of the property. Such analysis may also consider the option of adding new building to a site either by utilizing vacant land or by building addition floors on top of the existing building. Such Highest and Best Use analysis may indicate that retrofitting is not an economically viable option because there is a development “gap” where the cost (including a suitable development margin) exceeds the value.

When analyzing the existing building, key attributes will include the age and condition of the building. An assessment will need to be done in terms of the compliance of the

building with the current Building Code and the degree to which mandatory upgrades will be triggered by an application for a building consent to either alter the building or apply for a change of use. Under the Building Act 2004 when applying to alter a building as in the case of retrofitting then Section 112 of the Act may apply. This section is as follows:

Section 112 Alterations to existing buildings

(1) *A building consent authority must not grant a building consent for the alteration of an existing building, or part of an existing building, unless the building consent authority is satisfied that, after the alteration, the building will –*

(a) *comply, as nearly as is reasonably practicable and to the same extent as if it were a new building, with the provisions of the building code that relate to –*

(i) *means of escape from fire; and*
(ii) *access and facilities for persons with disabilities (if this is a requirement in terms of section 118); and*

(b) *continue to comply with the other provisions of the building code to at least the same extent as before the alteration.*

Alternatively, if the retrofit involves a change of use then Section 115 of the Building Act will apply as follows:

115 Code compliance requirements: change of use-

An owner of a building must not change the use of the building,-

(a) *in a case where the change involves the incorporation in the building of 1 or more household units where household units did not exist before, unless the territorial authority gives the owner written notice that the territorial authority is satisfied, on reasonable grounds, that the building, in its new use, will comply, as nearly as is reasonably practicable, with the building code in all respects; and*

(b) *in any other case, unless the territorial authority gives the owner written notice that the territorial authority is satisfied, on reasonable grounds, that the building, in its new use, will-*

(i) *comply, as nearly as is reasonably practicable and to the same extent as if it were a new building, with the provisions of the building code that relate to-*

(A) *means of escape from fire, protection of other property, sanitary facilities, structural performance; and*

- (B) *access and facilities for persons with disabilities (if this is a requirement under section 118); and*
- (ii) *continue to comply with the other provisions of the building code to at least the same extent as before the change of use.*

What both Section 112 and 115 mean is that any retrofit will automatically trigger a degree of compulsory upgrading if the building in question does not meet the requirements of the current building code, as is usually the case with older buildings. These mandatory upgrade requirements must therefore form part of the retrofitting. In particular the requirement to comply with structural performance in the case of a change of use, will often trigger the need for a seismic retrofit.

What is also of importance is the policy requirements relating to buildings which have been identified as “Earthquake Prone Buildings”. Such buildings will be subject to the Councils policy prepared under Sections 131 and 132 of the Building Act. These are as follows:

Section 131 Territorial local authorities must adopt policy on dangerous, earthquake-prone, and insanitary buildings.

- (1) *A territorial authority must, within 18 months after the commencement of this section, adopt a policy on dangerous, earthquake-prone, and insanitary buildings within its district.*
- (2) *The policy must state-*
 - (a) *the approach that the territorial authority will take in performing its functions under this Part; and*
 - (b) *the territorial authority’s priorities in performing those functions; and*
 - (c) *how the policy will apply to heritage buildings*

Section 132 Adoption and review of policy-

- (1) *A policy under section 131 must be adopted in accordance with the special consultative procedure in section 83 of the Local Government Act 2002.*
- (2) *A policy may be amended or replaced only in accordance with the special consultative procedure, and this section applies to that amendment or replacement.*

(3) *A territorial authority must, as soon as practicable after adopting or amending a policy, provide a copy of the policy to the chief executive.*

(4) *A territorial authority must complete a review of a policy within 5 years after the policy is adopted and then at intervals of not more than 5 years.*

(5) *A policy does not cease to have effect because it is due for review or being reviewed.*

Many older buildings in the CBD have suffered significant damage from the earthquake requiring repairs. As they are Earthquake Prone Buildings these repairs are now triggering mandatory seismic retrofits at substantial financial costs to their owners. Somewhat controversially the City Council rushed through a Section 131 Policy days after the earthquake that requires owners of damaged buildings to not only repair their buildings but to structurally upgrade to a level that equates to 66.66% of the current building code. This compares with the upgrade level of 33.33% of current code in the previous policy. Meeting the new higher level of upgrade may encourage owners to take the option of demolition rather than repair. In order to avoid this scenario, financially viable retrofit options need to be found (Nahkies, 2009), or there is a threat that Christchurch will become a city of vacant sites. There is also the concern that Christchurch will lose a substantial number of heritage and character buildings that help give the central city an appealing ambience.

Clearly an important factor in determining feasibility is the cost of the site. One strategy to make an infeasible project feasible is for the developer to negotiate a cheaper price for the land. It is possible to use the Residual Land Valuation approach to calculate the land value at which a project hypothetically becomes feasible. In theory, this approach should set the market value for a property that is „ripe’ for development. A major impediment to retrofitting in the central city has been inflated property values. The market has clearly failed to factor in the functional obsolescence of their buildings, particularly in relation to earthquake strengthening requirements. This may be attributable to market ignorance and also the comparatively benevolent approach of the City Council to enforcing seismic upgrades in the past. There is also a large possibility that the Council itself has „tainted’ or inflated the market by its use of incentives, its significant number of land purchases and the “hope” it has engendered by its inner city revitalisation publicity.

The market value for older buildings in the central city and development land in general is due for a market correction downwards. This might create opportunities for the adaptive re-use of existing buildings. For example, the depressed property market that followed the share market crash in 1987 made it feasible to convert several „cheap’ office buildings into hotels. Two developments that have successfully retrofitted buildings are the SOL Square development and the Lichfield Lanes development. In both instances the developer was able to buy several adjoining properties relatively cheaply and then by doing a comprehensive redevelopment of an area unlock additional value from underutilized site area and buildings.

There are a number of other 'site' related issues that potentially make retrofitting a challenging proposition. Buildings that are heritage listed require resource consents that may add to the costs of development and place limits on the 'remedial' work that can be done. However balancing this to some extent will be the ability to apply for a heritage grant.

Old buildings may also suffer from hazardous materials such as asbestos which will require potentially expensive remedial work as part of the retrofit process.

When considering the inventory of buildings suitable for potential retrofitting, the two main types of building in the CBD are office buildings and retail buildings. In terms of the office building stock there is clearly a problem of what to do with office buildings that are now obsolete and non competitive with new stock which is being built in both the CBD and the suburban areas. Examples of this sort of space can be found in the C Grade office space which comprises 36.2% of the current space. The vacancy rate for C Grade office space in the CBD has consistently hovered around the 20% mark for the last 15 years. Although the lower rent levels are clearly an attraction for some tenants the Category C space is also faced with competition from the cheaper D grade space or the better amenities offered by B Grade space.

The vacancy rates for CBD office space have been collected on an annual basis by the valuation firm of Fright Aubrey who have recently merged with Colliers International. Their survey is widely used and is considered accurate. However, it is not comprehensive in terms of measuring the total vacant potential office space. Buildings are included in the survey on the basis that they have office space that is available for lease. There are some buildings in the CBD where the owners no longer try and lease out office space and thus are excluded from the survey. These buildings are expected to be primarily "D Grade" or "E Grade" that have effectively dropped out of the office market. It therefore makes sense that they are left out of the survey but it must also be realized that they are likely to be the most likely candidates for retrofitting. It is unknown how many buildings fall into this category.

A number of office building owners have responded to the challenge by retrofitting their existing buildings to a higher standard in a bid to attract or retain tenants and to increase rents. There has also been a significant number of office buildings converted into hotels with the most recent being the So Hotel which was established in the old IRD Building. There are also examples of office buildings which have been converted into backpackers accommodation or serviced apartments. There has been little conversion of office space into apartments as occurred in Wellington and Auckland.

The second category of space that is potentially ripe for retrofitting is the large number of two or three storey shops. Typically the upper floors of most of these shops are vacant or underutilised and have the potential to be converted to office space or residential. This type of space is not measured in any current survey and it is unclear how many buildings of this type are potentially available for retrofitting. There are also a small number of other types of buildings that are underutilised such as old theatres and

industrial buildings that have the potential to be retrofitted including the current bus exchange building which will eventually become redundant.

Although there have been no surveys to measure potential retrofit 'stock' there is clearly a substantial pool of buildings that may be suitable and available for retrofitting. The pool of available buildings has been increased by the 4th September 2010 earthquake which caused extensive damage both in the central city and suburban areas. Since then, a succession of aftershocks has continued. Some of these have been of considerable strength and have added to the damage and as recently as the 26th December 2010 a significant aftershock struck Christchurch. This aftershock was particularly damaging due to the high ground acceleration, its shallowness to the surface and its close proximity to the central city. As a result the central city suffered violent ground shaking which caused further damage to at least 120 inner city buildings (Churcher, 2011). Of particular economic significance was that it occurred at 10.30 am on Boxing Day which is traditionally one of the biggest retail days of the year. Concerns over safety meant that shoppers were evacuated and the central city was once again cordoned off.

The general impacts of earthquakes on the central city have been significant as the CBD comprises many older unreinforced masonry buildings which are vulnerable to earthquakes. Some of these have been extensively damaged and now face demolition. The question remains as to how many buildings will ultimately be demolished and what if anything will be built in their place.

Although the net impact of the earthquake has been to reduce the total pool of candidates ultimately available for retrofitting due to demolitions it has introduced a large element of urgency into the situation. Whereas previously the number of buildings seeking or requiring retrofitting was small there is now potentially a 'log jam' of buildings urgently requiring retrofitting. Adding to the problem is the current lack of market demand for space in the CBD making it difficult to justify retrofitting on economic grounds.

The question also remains as to whether there will be any long term stigma effect relating to the central city and the old buildings that remain. There is certain to be at least a short term stigma attached to unreinforced masonry buildings that will provide additional challenges when marketing space in these types of buildings. This may also apply to more modern buildings that are also not built up to current building codes such as pre-1975 office buildings.

End User

For any retrofitting to be commercially viable there needs to be demand for the retrofitted space by an end user. As discussed earlier the central city is struggling to compete with suburban developments in terms of office space users for a number of reasons. New developments are marketed on the basis of large floor areas or green building features. These can be equally well provided by suburban located buildings. There are likely to be limited opportunities to retrofit offices and these are only likely to occur with tenant commitments in place. Successful retrofitting is most likely to occur in buildings that can

provide adequate car parking at a suitable cost and where elements of green building can be introduced to reduce operating expenses. It is also likely to be successful where the building has a good location. There is evidence in Auckland and Wellington that there is a segment of the market that seeks out and is attracted to character office space of a good quality. There has been no research done in Christchurch to identify if such opportunities exist in Christchurch and it is not clear whether any stigma effect from the earthquake has damaged the potential market for such space.

In general the demand for space in retrofitted CBD buildings will be competing with both suburban competitors and newly built CBD space. To capture market share the space created must have a competitive edge, be it location, price, or amenities. The City Plan unwittingly allows unnecessary suburban competition with the inner city. For example, it allows live/work units throughout the business zone, it promotes 'apartments' in suburban locations and it provides incentives for the provision of elderly persons housing in low density areas. These are all examples of current planning rules that need to be reconsidered in terms of their detriment to inner city revitalisation by capturing demand for real estate product suited to the Central City.

In terms of the refurbishment of retail space, opportunities are likely to be limited due to the depressed state of the inner city retail market. Opportunities will be very site specific and will rely on either adequate pedestrian flows or the specific requirements of destination shops. Largely missing from the central city are big box retailers. In both Auckland and Wellington big box retailers are a welcome part of the shopping mix and even occupy retrofitted space. An example of this is Rebel Sports in the James Smith Building in Wellington. The attitude of the Council appears to be to discourage them from locating in the central city and was a reason given for the Henderson purchases. When the bus exchange becomes vacant this could provide a retrofit opportunity to entice a big box retailer into the central area.

As well as physical damage to buildings the financial loss to many inner city businesses has been significant and may ultimately cause many businesses to fail. In response to building damage large areas of the CBD have been cordoned off and the number of visitors to the central city has dropped along with the turnovers of many businesses. Some have also been either forced to relocate to temporary premises within the CBD or have taken the option of relocating to other premises outside the CBD. This may reduce the pool of potential retail tenants even further.

The growth in tourism in the Central City may provide some retrofitting opportunities but demand currently appears satisfied by recent new developments. Ultimately the most promising pool of potential users of retrofitted space is the residential market.

Studies have shown that one of the major drivers of inner city living has been a desire to live in modern housing as much as any strong locational pull of the inner city (Lilley, 2006). However, other research and anecdotal evidence supports demand for character living space based around the adaptive reuse of heritage buildings. This offers some encouragement in terms of retrofitting.

Finance

In successful property development the development must generate a surplus or profit above the cost of the development that is large enough to provide a suitable reward for the entrepreneurial talents of the developer and the risk involved. There must also be sufficient financial reward to provide a return to the capital tied up in the project. This can be in the form of an opportunity cost if all the funds used in the development come from the developer but is more usually a mix of opportunity cost to an equity proportion and debt servicing cost for the borrowed portion of the cost. The analysis of the expected financial returns is a key component of any feasibility study. If the returns are insufficient the project may not go ahead. Even if the developer thinks the returns are sufficient the development may not go ahead if the lender considers the development is not a “bankable” proposition.

With the onset of the GFC the property market in New Zealand has followed the general economy into recession. The GFC has impacted on the property market in a number of ways. The banks tightened up their lending policies in reaction to the GFC, requiring more equity to be provided by borrowers. The housing market in particular has been negatively affected and to a lesser extent the commercial property market.

The property development industry in particular has been particularly hard hit by the collapse of most of the finance companies in New Zealand resulting from the GFC. The finance companies provided mezzanine finance to developers and were far less conservative in their lending than the traditional trading banks. The combination of tighter finance and subdued property markets has seen the financial demise and bankruptcy of many established developers. Among those who have suffered bankruptcy is David Henderson, the well known Christchurch developer who has been active in inner city revitalisation projects. The lack of capital available to developers means that it is difficult to get any development underway, particularly those that are considered of a speculative or pioneering nature. High levels of pre leasing or pre sales are a necessity.

There have been a number of other indirect impacts as consumer spending patterns have altered in response to the GFC and the resultant recession. Many businesses are suffering from reduced profits and limited growth.

All of the above makes for a difficult environment in which to initiate any property development, particularly anything of a speculative or pioneering nature. Many of the owners of earthquake damaged buildings should be looking hard at all their retrofit options as well as just complying with the compulsory seismic retrofit required by Council. Depending on their insurance cover they may well have a shortfall of funds and limited access to finance. There may well be a role for the Council in bankrolling such owners to allow them to invest back into their buildings.

The City Council is in an enviable position in terms of access to capital and credit rating and thus is in a powerful position to negotiate joint venture partnerships if they are prepared to fund a development. However, funding the project puts them in a position of risk that should be adequately rewarded.

Access to capital is a huge advantage to developers in the current development climate and allows them to „cherry pick’ sites with good development potential at bargain prices from distressed vendors. If market demand exists for the development they can develop free from the threat of significant competition leading to overbuilding in a market. Alternatively in the absence of demand they can land „bank’ sites until the market improves.

Knowledge

The fourth factor that is necessary for successful property development is knowledge. This knowledge factor includes a multitude of technical and personal skills and typically these are never found in one person and a team of people are needed to successfully complete a development. In this team the developer is obviously the key person as they provide the drive and leadership to complete the project. They also typically act as the project manager, and select and coordinate the team.

Where a developer lacks experience in a locality or product type or in order to share the risk a developer may often enter into a partnership with a fellow developer that complements their experience and skill set.

The Council has followed this approach in terms of developing the Turners and Growers site and in building the new Council Headquarters. It is also an approach that is promoted extensively in the strategy although the word partnership is used with no detail as to what form these partnerships and joint ventures will take. Much of it seems to relate to the development of “underutilised sites”. The Councils main focus appears to be providing a site for development and then leaving it up to developers to come up with a proposal that meets their criteria.

An alternative model discussed earlier in this paper was a CCO which would take more of a hands on and direct involvement in retrofitting projects. An advantage of this approach is that the Council could use their developments as examples for the private sector to follow and make available information to the market place that would normally be kept in house because it was considered commercially sensitive. This approach was used by Melbourne City Council to spur inner city revitalisation in the 1980’s.

Such hands on involvement would require appropriate staff and resources, and a mandate from the community. It would also need a clear set of objectives and freedom from political interference.

Lack of knowledge is clearly a constraint for many property owners when it comes to retrofitting. Even if they are experienced property investors they may be uncomfortable in the role of property developer. At the other extreme they may underestimate the skills required for successful property development and fail to buy in the necessary expertise.

For a large number of owners with earthquake damaged buildings they have now been put in the position of being ‚accidental’ developers. Council policy is going to force them to carry out a substantial retrofit operation and they may well require mentoring in order to analyse their options and the processes that must be followed. The Council has a potentially powerful role to perform in terms of gathering and disseminating ‚knowledge,’ be it market research, best practice design, cost information or feasibility studies.

Recommendations

Review and Revise the Strategy.

In light of the lack of traction and the significant changes that have taken place in the economic environment since the strategy was adopted in 2007 the Strategy should be reviewed in terms of success to date and updated and amended where necessary. This review is particularly necessary given the significance of the recent earthquakes. The role of education in the CBD needs to be considered in the Strategy and efforts made to challenge the current status quo in relation to education. Opportunities such as the planned student village and the aborted music school project can be catalysts for this.

In general the level and forms of council intervention need to be considered carefully and debated. If incentives are to be used they must show demonstrable social and economic benefits to the Christchurch community. They should not be in a form that inflates or artificially maintains property values in the inner city.

Future focus should be on the Central City ‘core’ and not peripheral locations.

Priority should be given to reviving the core area of the city. This should be achieved by shrinking the retail area into a concentrated pedestrian orientated precinct that is well served by parking buildings and public transport and getting residents living in the CBD as well as in the larger inner city area. Efforts to build new development outside this core effort should not be encouraged as it will compete with the core space and hinder efforts to make Christchurch a pedestrian orientated, 24 hour city. A strategy that promoted retrofitting existing buildings in the CBD would help this process.

Make CBD Residential Growth the Priority

Each additional inner city resident has five times the economic impact of a new inner city worker. In addition the inner city resident is then more likely to choose to work in the inner city. As well as the economic benefits of increasing the CBD population, this will also help achieve the goals of the UDS and also make the city safer and an active place outside work hours. Residential growth in the CBD core will provide a use for redundant CBD buildings and create opportunities for retrofitting. Any incentives should as a priority encourage residential growth before office growth.

Achieving consistently high population growth in the inner city will be hard to achieve without addressing affordability issues.

In order to achieve a culture shift of the magnitude required by the population goals set out in the Strategy and UDS the inner city housing product will require good urban design and a product that is price competitive with other housing alternatives. In order to do this, ways need to be found to make inner city living an affordable option. One obvious way to do this is by subsidising rents and/or prices. The concept of affordable housing should be explored to provide incentives for people to buy or rent in the central city. This might include options such as

- Equity sharing
- A ground rental scenario
- Rent to own Schemes
- Low interest loans

Other alternatives might be considered such as providing accommodation with no car parking but providing the residents with access to free public transport. This would make the accommodation cheaper to build, would save the residents the costs of car ownership and would promote the use of public transport.

Retrofitting is the most sustainable form of urban development and should be the priority for any subsidies or incentives.

Use incentives to create end user demand in a sustainable way. That means recycling the buildings that already exist in the inner city rather than demolition and building green. The emphasis should be on filling vacant obsolete space.

The level of vacancy in some central city buildings and the pool of earthquake damaged buildings offer significant opportunities for retrofitting

The high and increasing vacancy rate in the old and inferior office buildings will need to be addressed or there will be an increasing number of poorly maintained vacant buildings. These will potentially become „eyesores’ in the CBD and may also encourage the illegal conversion of some space. These buildings will need to be retrofitted. There are also numerous buildings now facing the need for immediate and significant seismic retrofits having suffered earthquake damage. At the same time that they are having their seismic retrofit it would be advantageous to implement other retrofit options.

The economics of retrofitting may be marginal in the current market. This needs investigation, particularly in relation to commercial to residential conversions.

Feasibility analysis of retrofitting options may indicate that there is a no financial benefit to gain from retrofitting. However, the impacts of the earthquakes are still to be fully realized and the CBD property market should show a downward correction due to the earthquakes. This is because the level of market knowledge regarding seismic retrofits has been raised and an element of market stigma may become apparent. The Councils new earthquake strengthening policy and the potentially high number of vacant development sites that may be created in the wake of the demolition of earthquake damaged buildings will also put downward pressure on property prices. A reduction in prices will improve the economics of retrofitting and may create development opportunities.

If feasibility analysis shows that retrofitting is uneconomic for private developers the Council will need to take a more active role in developing suitable CBD property.

The Council can use its financial resources to buy distressed properties whose buildings are facing demolition. Such properties should be purchased at „bargain’ prices that reflect the depressed state of the development market at a price that equates to development land value less the costs of demolition. The Council could then undertake the retrofitting and either on sell the property or retain it as an investment. This is preferable to providing subsidies to developers as it will not distort the market and it will be more transparent and cheaper in the long run. Not all distressed properties would be suitable for such an approach but only those with strategic importance and/or with heritage value. Such a policy requires the Council to set up a suitable CCO to undertake this role.

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