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# Ear to the ground

## The likely timeline for reconstruction in Christchurch

- Christchurch reconstruction will gather pace gradually, rather than suddenly.
- Residential construction activity could be under way by October.
- Commercial construction will be delayed much longer.

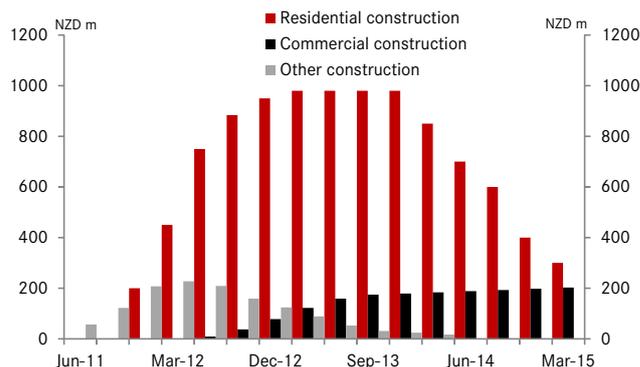
The pace and timing of reconstruction activity in Christchurch is a critical component of New Zealand's economic outlook. A rapid reconstruction boom could lead to high rates of GDP growth and a rapid series of interest rate hikes. A delayed or slower pace of reconstruction could lead to lower GDP growth rates and more modest interest rate hikes.

Unfortunately, our traditional forecasting tools can shed no light on this crucial question. While our Bulletin 'Disasters in history' of 8 July concluded that earthquakes tend to be followed by substantial rebuilding activity, the timing of that rebuilding can vary greatly from case to case. So instead we have relied on keeping an ear close to the ground and talking to informed people. This bulletin summarises the impressions I have gained through a series of discussions with various parties including members of parliament, Westpac staff, construction companies, the Christchurch City Council, and the Canterbury Earthquake Reconstruction Authority. Ironically, a meeting with Christchurch and Canterbury Tourism was interrupted by the magnitude 6.3 June 13 aftershock. Everybody involved has been helpful, but any inaccuracies are my own.

The topic of interest is the start date for significant reconstruction activity, as well as the pace of acceleration. Of course, there will be examples of work that is delayed far beyond the start dates I have indicated. And everybody agrees that the end date for reconstruction activity could be a decade or more away.

There is a multitude of reasons to expect the reconstruction effort to gather pace slowly, as detailed below. A sharp distinction must be drawn between the outlooks for residential and commercial construction. Some residential construction work may begin this year, and more will ramp up over 2012. By contrast, commercial construction will take longer to get under way, and will peak much later.

Quake-related reconstruction activity



### Residential reconstruction work

There is very little residential construction currently going on in Christchurch. The main obstacle has been the slow pace of insurance paperwork, coupled with wariness of further aftershocks. Most people I met thought that October this year was a realistic start date for the earliest repair work on houses that were damaged in February but unscathed by later aftershocks, and are on stable land. (This is a large category.)

For Christchurch houses on unstable land, it may take longer before work can begin – perhaps mid-2012. This view is based on the example of Kaiapoi, a town to the North of Christchurch. Kaiapoi suffered extensive damage to land and buildings in September 2010, but was relatively unscathed in February 2011. So far, houses have been demolished and land remediation is under way, but significant reconstruction activity is set to begin only in September – a full year after the main damage occurred.

Some residential areas in Christchurch are going to be abandoned altogether. About 5000 houses are within these so-called “red zones”. The government recently announced that it would offer to buy insured red zone properties at the 2007 official valuation. This announcement was a crucial step towards creating demand for new houses in the Christchurch area. Now that owners have certainty, and the ability to cut through slow insurance paperwork, they can begin their search for new properties. The fact that house prices in the

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less-damaged parts of Christchurch are now rising suggests that demand for houses has already picked up. This will soon stimulate construction of the new houses Christchurch needs. The process won't be as simple as everybody moving straight from the red zones to new subdivisions. A complicated reshuffling of the population is more likely, and this could be slow.<sup>1</sup> Therefore, it seems that although some building of new houses might begin late this year, the ramp up through 2012 will be slow.

On the availability of sections, it was pointed out that Christchurch oversupplied itself with subdivisions during last decade's housing boom (like most places in New Zealand). There are now many appropriate sections available in relatively undamaged parts of the city, not to mention neighbouring districts. Some already have infrastructure in place and are ready to build on, as soon as there is demand. Of course, more subdivisions will eventually be needed, but here too the people closest to the matter were fairly relaxed. There is ample appropriately zoned land ready for subdivision.

### Infrastructure repair

Serious repairs to Christchurch's damaged infrastructure such as roads and sewerage are expected to begin around October this year. After the September 2010 earthquake, the city was divided into small "pods". The city council determined the necessary infrastructure repairs and allocated all of the work within each pod to a single construction company. The go-ahead to begin work was about to be given when the devastating February 22 aftershock struck. Repeating the process after February was quicker because the procedures and capacity were already in place.

The total repair bill for infrastructure is shaping up as less than originally thought (Westpac's estimate was \$3bn). Infrastructure in some areas of the city was less damaged than initially feared. And repair work will be unnecessary in those areas that are to be abandoned altogether.

The council plans to fund some of the necessary infrastructure repairs by delaying some ordinary work. This implies a long, drawn-out period of elevated infrastructure work in Christchurch, rather than a sudden spike.

### Commercial reconstruction

Commercial reconstruction activity seems likely to be delayed longer than residential or infrastructure work. In the CBD itself, rebuilding work is unlikely to begin before 2013. However, work on a small number of buildings in other parts of Christchurch (or indeed other parts of New Zealand) could begin in 2012, as some businesses opt to move permanently rather than wait.

It is worth pointing out that although the CBD suffered the most shocking damage, it actually only accounts for about 20% of the total damage to buildings in Christchurch.

Currently, the core of the CBD remains closed as demolition work is still under way. This could take another year

to complete – the status of many buildings is yet to be determined, let alone the actual demolition. Deconstruction is just the first of a long series of hurdles that must be cleared before reconstruction of the CBD can begin. The city council is working on a new plan for the CBD. This is to be submitted for public consultation before Government signs off on the final plan by January 2012. Only once the city plan is complete will individual owners be certain of which zone their land is in. Then they can design and obtain consent for an appropriate building (or sell the land). And only once the design and consent is complete can construction work actually begin. Considering the usual timeframes involved in designing and obtaining consents for buildings, and bearing in mind that the processes will be delayed by limited availability of architects and people qualified to process consents, one suspects that early 2013 is an optimistic start date for reconstruction in the CBD.

The authorities seemed singularly determined that Christchurch would retain a viable CBD in the former location, rather than becoming decentralised or building a new CBD. Government and council will fill the role of "anchor tenants" in the rebuilt CBD. And development in other parts of Christchurch may be actively constrained in order to protect the CBD – this is one more reason we expect a delayed and protracted period of commercial construction activity, rather than an early boom/bust.

### Are there enough workers?

The reconstruction effort will eventually require many thousands more construction workers than were present in Christchurch during the 2000s construction boom. The general consensus among those I spoke to is that wages will rise in order to attract sufficient staff. For low-skilled occupations, higher wages and the promise of plentiful work will attract people into appropriate training programmes. For high-skilled occupations, very large pay increases may be necessary to attract workers from outside the region. For example, structural engineers from around the world have been attracted to Christchurch by sharply higher salaries (especially expat Kiwis).

Ironically, the biggest constraint on the pace of reconstruction activity may be the availability of housing. Rapid reconstruction would actually swell Christchurch's population at the very time when housing is scarce, exacerbating the problem rather than alleviating it. Building extra houses to accommodate incoming workers raises the spectre of a post-reconstruction bust when the work runs out. The authorities are actively seeking to prevent this unhelpful boom/bust scenario, preferring instead a slow and steady reconstruction programme. (In my opinion it will be difficult to avoid at least some element of boom and bust. After all, official efforts to avert the nationwide housing boom/bust of last decade were singularly unsuccessful.)

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1. For example, a red-zone resident might buy an established property from somebody who has moved away from the city, while a new immigrant builds in a new subdivision. The net change would be a shift of one household from the red zone to a new subdivision.