Repairs, renovation, restoration, demolition or replacement of multi-dwelling units on a single title

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BRANZ Research Project

INTRODUCTION

Our research team (the authors of this paper and Professor Jacinta Ruru) based at the School of Law, University of Canterbury and the Faculty of Law, University of Otago has been granted funding from the Building Research Levy through the New Zealand Building Research Association New Zealand (BRANZ) and the New Zealand Law Foundation to investigate the problems that have occurred with repairs, renovation, restoration, demolition or replacement of multi-dwelling units on a single title (for example, unit titles, cross leases, retirement villages and papakainga housing, or units or buildings where mixed commercial or industrial use is combined with residential use). Although the most obvious examples of events that trigger a need for such repair or restoration have been natural disasters (for example, the Christchurch earthquakes) and buildings that have been affected by New Zealand’s “leaky home” syndrome, problems may also be encountered on a much smaller scale with fires or other triggering events. This paper explains our methodology and reveals some of our early findings.

METHODOLOGY

Our methodology comprises the following elements.

Literature search

We have searched the published literature (books, journals — including industry journals — web-based material and government publications) across a range of countries and a range of fields to collect and analyse relevant material. This paper reflects this first stage of the project.

Empirical work

We have released almost all of both our first and second tier online surveys. The first tier comprises a group of relevant parties (lawyers, mortgagees, insurance companies, Te Tumu Paeroa Maori Trustee and Maori Land law specialists, retirement village operators, planners and Land Information New Zealand (LINZ)) to collect information regarding their experiences with the problems described above. The second tier, aimed at collecting similar information, comprises the following organisations and professional bodies: quantity surveyors, registered surveyors, architects, engineers, Housing New Zealand, MBIE, Canterbury Earthquake Recovery Authority (CERA) and EQC.

This data will be analysed, and selected respondents will be approached to take part in semi-structured qualitative interviews to elucidate issues that appear to be problematic as well as any matters which have been thrown up by the literature search on which data is absent or uncertain.

Throughout this year, we will also travel to certain selected overseas jurisdictions to conduct a series of semi-structured interviews with individuals, businesses, and government and non-governmental organisations who are engaged with, or have particular expertise in relation to, local practices concerning this type of land ownership. These jurisdictions will include Canada, United Kingdom, Hong Kong and Australia.

Analysis and feedback

The bulk of our critical analysis will take place after all the interviews are completed. From that analysis we will document a range of identified issues which are particularly relevant to New Zealand, including possible avenues for changes in law or practice.

The last stage of the project, prior to the completion of the final report, will be to obtain feedback from New Zealand individuals and organisations consulted during the process so as to obtain their opinions and advice as to the practicability and desirability of particular reform options identified during the research and analysis stages.

RETIREMENT VILLAGES

During an earlier research project into the legal effects of the Canterbury earthquakes, we found that there were very considerable difficulties in applying the existing law, as set out under the Retirement Villages Act 2003, in a fair and satisfactory way to people affected by the earthquakes (see generally Alison Chamberlain “Unit Titles, Cross-Leases and Retirement Villages” in Jeremy Finn and Elizabeth Toomey (eds) Legal Response to Natural Disasters (Thomson Reuters, Wellington, 2015) 329–331). The Code of Practice created under that statute operates on the basis that retirement village residents purchase an “occupation right agreement” (ORA) which governs their relationship with the retirement village operator. In essence, residents buy a licence to occupy a designated unit until they die or choose to move out. The legislation and the Code provided no real guidance for cases where residents had to leave their units for a lengthy period,
let alone any guidance in the post-earthquake environment where the retirement village had to cease operations completely because the land became unsafe to rebuild on or was otherwise unavailable for further use as a retirement village. As the residents had only a licence to occupy, they did not have EQC cover (although the owner did for the residential elements of the village). In such a case, the legal principle underlyng the Retirement Code dictates that the lifetime right to occupy disappeared when the relevant buildings could not be reinstated, or could not be reinstated correctly. Any recompense was a matter of agreement between the operator and the resident.

The 2008 Code, which was in operation at the time of the Canterbury earthquakes, provided for “no-fault” termination of the right to occupy, and then required the ORA to specify how the residents and the village operators would agree on the amount the residents would receive following such a termination. That 2008 Code did not contain, as an earlier version had, any minimum figure to be paid, although the earlier 2006 Code had set a minimum figure of the original cost of the ORA. Residents in four large villages found the pay-outs offered were well short of the original price paid, and were inadequate to pay for replacement accommodation.

After considerable public discussion and agitation, settlements were reached with the displaced residents, and the Code of Practice was revised in 2013. Under the revised Code when there is a “no fault” termination of the ORA, the residents are entitled to receive at least the price paid for the ORA. That provides a minimum figure, but often inflation and rising retirement village prices will mean that even the full original investment is inadequate to purchase equivalent accommodation. Nor is an Industry Code of Practice a satisfactory basis for dealing with such a complex issue in the future.

It must be borne in mind that where the retirement village is significantly affected by fire, flood, earthquake or other major event, there is likely to be a very substantial financial cost to the retirement village operator unless EQC cover meets the full costs of repair and reinstatement (unlikely!) or comprehensive insurance cover is maintained. The costs of that cover must be recovered from residents through management fees if it cannot be underwritten by a part of the capital sum paid for the ORA.

Part of our research will involve looking at models for retirement villages in jurisdictions outside New Zealand so we can see whether there are alternatives to the current New Zealand system which might be simpler and more equitable than the current law. We may well find this is not possible, but given the increasing importance of retirement villages as accommodation for the increasingly large cohort of retired and aged persons it is essential we investigate the issue.

**“MIXED USE” OR “MULTIPLE USE” PREMISES.**

A further strand of our research is to look at issues relating to single titles to land which are used for mixed residential and other uses. There is, we think, a mindset in New Zealand which sees urban or town land as “commercial, industrial or residential”, and to look for zoning of the land into one of those three categories in the relevant operative district plan. There is little mention of possible uses of land which involve more than one such use on a single title to land.

That mindset is also reflected among lawyers, who habitually divide leases of land into “Residential Tenancies” and “Commercial Leases”.

**Terminology**

A question of terminology arises here. What is the proper description to give to land on which stands one or more buildings, and the building(s) is or are used for more than one of the trilogy of uses by which we commonly classify the land and its use?

“Mixed-use” is an available phrase, but this has usually been used with connotations that an area has mixed land uses, with the various parcels of land within it being used for only a single use (for example, a suburban block which has mostly residential buildings with a small cluster of retail commercial spaces).

We may usefully borrow the term used in some other countries of “multiple” land use, which encompasses a range of different uses of land. Thus “multiple use” land can be seen as land on which there is a mixture (SSY Lau et al “Multiple and intensive land use: case studies in Hong Kong” Habitat International 29 (2005) 527, at 527–528):

... of revenue producing uses i.e. commercial, residential, recreational, institutional and industrial including different types of housing, owner occupied and rented accommodation, public and private uses, as well as accommodation of different social groups.

In New Zealand “multiple use” seems to have its greatest currency as a descriptor for rural land used for grazing and timber production.

Multiple use of land can occur at different specificity — within a district or neighbourhood, within a street or public space, or within a town or city block or — most relevantly for our purposes — within a single building (Lau et al, above, at 532).

Some New Zealand cities have significant areas, commonly in the inner city, of such mixed residential and commercial premises. Christchurch has far fewer now than it had, as it seems few of the rebuilt commercial premises have incorporated a residential element. Indeed the Christchurch Central Recovery Plan Te Mahere ‘Maraka O¯ tautahi’ (July 2012) completely ignored possible multiple use of single land titles in the city centre, talking instead of “precincts” including a commercial precinct (at 66) and for the need for a range of different housing “from one-bedroom units through to family houses with several bedrooms that will be affordable to people of all ages and stages of life” so as to ensure a vibrant city centre (at 81).

There is, of course, a great deal of evidence from New Zealand and elsewhere that neighbourhoods which combine these commercial and residential elements are attractive to residents, although neighbourhoods which combine industrial and residential uses are less so (see, for example, Hans RA Koster and Jan Rouwendal “The Impact of Mixed Land Use on Residential Property Values” (2012) J Regional Science (2012) 52(5) 733–761).

In other cities not only are such mixed uses evident but redevelopment of some inner-city areas has deliberately attempted to mix residential units with commercial areas within a single restored or renovated building, for instance some of the redeveloped areas in central Wellington near Cuba Street. The Auckland City District Plan for central Auckland envisages the possibility of multiple use of buildings, including the
conversion of parts of existing buildings for accommodation (City of Auckland, District Plan Central Area Section — Operative 2004 Updated 27/03/2012, 15–16). The latter two may reflect the higher cost of land and therefore the willingness of developers to look to diversified income streams.

The repair/reinstatement issues for multiple land use land.

A key question for our BRANZ project is to consider the legal issues affecting the repair, renovation or reinstatement of damaged buildings on a single land title.

At its simplest, multiple land use may be a mainly residential building with an area dedicated for commercial or industrial use such as a shop area, a hairdressing salon or a small-scale manufacturing operation. Frequently, repair, renovation or replacement of such premises will pose few legal problems because the same individuals will own or control the entire premises, even though the commercial or industrial activities may be carried on by a limited liability company owned by the residents and proprietors of land.

More complex issues arise as the number of distinct users of parts of the land increase. Legal issues will generally be much simpler if, for example, we are dealing with a shop with a single residential space above it, owned and occupied by the shopkeeper. However when there are several different flats above a single shop we have the near certainty that any form of legal regulation of the use of the land must take into account both the commercial use of the shop and the residential tenancies involved in some or all of the flats. The greater the number of different users, and different uses, the more complex the position.

While we do not want to theorise too far ahead of our data, it appears likely that multiple use buildings may pose particular problems in terms of determining planning requirements and construction standards as well as reconciling what may be very conflicting interests of residential and commercial/industrial tenants or owners.

UNIT TITLES

Unit titles are one of the primary legal tools by which higher density cities can be encouraged. However, they have proved a difficult tool in some circumstances. There are a number of problems ranging from management of the unit title schemes on a day-to-day basis, to the particular problems that arise when buildings are damaged or need to be strengthened. Recent popular discussion has centred on the perceived problems with bodies corporate. This is reflected in the website recently established by Nikki Kaye MP to gather views on whether the rules around bodies corporate are working or whether change is necessary (<www.betterbodycorporates.nz/>). However, the problems go further than this and include matters arising in relation to the structure of particular unit title schemes as well as issues arising from the governing legislation itself.

Problems with the structure of bodies corporate

Recently, the relatively new Unit Titles Act 2010 has been described as a “dog’s breakfast” (Thomas Gibbons “Body corp law must be rewritten” The New Zealand Herald (online ed, Auckland, 27 January 2016)). The general consensus is that it contains a “surprising number of significant flaws and omissions” (John Greenwood “Unit Titles Reform—What is Wrong?” (2013) 3 Property Quarterly 13). Many of these problems were identified before the Act came into force and few have been addressed. One example is the high degree of dissatisfaction many unit title holders feel with the property manager contracted by their body corporate to run the unit title scheme on a day-to-day basis. There is no oversight or regulation of these providers, which raises concerns in relation to costs and performance, as well as accounting and auditing practice (Anne Gibson “Apartment blues: Time to control the body corporate managers” The New Zealand Herald (online ed, Auckland, 30 October 2015)).

Although the popular debate appears to be centred on the role of property managers, a range of other problems have also been identified (Gibbons, above). For example, the liability of body corporate committee members is unclear. It is also unclear what should happen when no unit title holder wishes to act as the chairperson of the body corporate. The chair is required to be an owner (Unit Title Regulations 2011, cl 10(4)), however the duties imposed on the chairperson by the regulations can be quite onerous (for example, the signing provisions in Unit Title Regulations 2011, cl 11(1)(i) and see Greenwood, above, at 14).

The use of proxies has also been identified as a real problem. The issue arises because it is possible for one unit title holder to lobby others (often overseas) for their proxies and then use this power to influence decisions regarding the rate of levies (for example in relation to maintenance). This can be a problem both in relation to funds being available to adequately maintain the building, but also because it can be used as a ploy to delay maintenance work, therefore reducing the value of the units, and enabling the purchase of units at a reduced price by those supporting the proxy holder (Fran O’Sullivan “Body corp moves by Govt long overdue” The New Zealand Herald (online ed, Auckland, 21 January 2016)).

Further problems stem from the fact that the treatment of funds in body corporate accounts is relatively unregulated and is not governed by the sorts of stringent protections applied to solicitor or accountant trust funds.

Each of these problems also illustrates the fact that although bodies corporate are constrained in some respects (such powers of mortgage or lease), in many respects there is very little regulation. This is compounded by the fact that there is no default regime under the Act (Greenwood, above). While it is possible to ask the relevant Ministry to investigate problems (Unit Titles Act 2010, s 202), or ask the High Court to appoint an administrator, in neither case are there guidelines governing those procedures or indicating what, if any, penalties may be imposed (Unit Titles Act 2010, s 141).

For those parties needing to resolve disputes there is also a range of difficulties. The 2010 Act provides for disputes to go to the Tenancy Tribunal, but the extent of its jurisdiction is unclear. Moreover, in relation to unit titles the Tribunal charges a fee of $850 for minor matters, but $3,300 for all other disputes. This can be contrasted to the cost for residential tenancy disputes which is $20.44. This issue is exacerbated by the fact that bodies corporate must apply to the Tenancy Tribunal before triggering any available arbitration provisions (Greenwood, above, and the Unit Titles Act 2010, s 174).

Finally, the disclosure requirements (necessitating four different types of disclosure, each at different times) have been identified as problematic. Not only is it unnecessarily onerous, but there is also a range of information (such as
body corporate insurance information, or weather tightness issues) which need only be disclosed if specifically requested (Greenwood, above, and the Unit Titles Act 2010, s 174).

Beyond these general problems there is also a range of particular problems that may have an impact on the desirability and successful operation of unit title schemes.

The power of the body corporate to carry out remediation work

The ability for bodies corporate to carry out remediation work has caused significant problems. This has been a particular issue in relation to leaky buildings, but is also a problem in the context of earthquake strengthening work. In relation to leaky buildings the difficulties stem, in part, from the fact that water does not respect such niceties as common or individual property. Repair or strengthening work can be costly and individual owners are often unable, or unwilling, to fund their share of the costs. In this context the response has been for the body corporate to apply to the High Court to settle a scheme under s 74 of the Unit Titles Act 2010. This provision allows the body corporate to be authorised to undertake all of the remedial work (including on individual units). Although this approach has been described as “supported by pragmatism” (Thomas Gibbons “Season of the Tisch: A Response to Rod Thomas (Schemes under the Unit Title Regime) [2012] 18 NZBLQ 147), the real difficulty here is that the wording of the legislation appears to limit s 74 schemes to situations where the buildings are damaged or destroyed to the extent that the development in its damaged state cannot continue (Rod Thomas “Schemes Following Destruction or Damage Under the New Zealand Unit Titles Regime” [2011] 17 NZBLQ 371). This is not necessarily the case in most leaky building situations. Although the courts seem happy to accept this approach at the moment, there is a risk this might change in the future.

In addition, this option is not open to bodies corporate seeking to undertake earthquake strengthening work. As there is no “damage” in these situations it is necessary to require owners to commit to an upgrade through a deed of settlement, or to rely on a special resolution of owners to raise the necessary funds (Greenwood, above). Both options are problematic where unit holders are unable or unwilling to participate.

Questions surrounding the ability of unit title holders to sue for negligence

Perhaps the most extensively litigated issue in relation to unit titles has been the question of whether it is possible for unit title holders to sue territorial authorities in negligence. While the Supreme Court has said that the owners of both individual and commercial unit titles can sue local councils for breach of a duty of care, the litigation is illustrative of the sorts of issues that can be caused by unit title developments and the difficulties of resolving them (see North Shore City Council v Body Corporate 188329 [Sunset Terraces] [2010] NZSC 158, [2011] 2 NZLR 289 and Body Corporate No 207624 v North Shore City Council [Spencer on Byron] [2012] NZSC 83, [2013] 2 NZLR 297). A practical sub-issue that has arisen is the appropriate mechanism for body corporates and individual unit owners to manage and settle claims (Dan Parker and Tim Rainey NZLS CLE Ltd Seminar: Leaky Buildings (New Zealand Law Society, Wellington, 2011) at 115).

Who suffers damage when the common property is injured and who is financially responsible for the cost of rectifying the damage?

A related issue is who suffers the injury when common property in a unit title is damaged. Although Sunset Terraces indicates that the body corporate has the right sue in respect of the damage, the Supreme Court appears to have left open the issue of who actually suffered the loss (the body corporate or the individual proprietors). The issue is further complicated by the different provisions in the Unit Titles Act 1972 and the Unit Titles Act 2010. The former specifies that the common property is owned by unit title owners in proportional shares as tenants in common (Unit Titles Act 1972, s 9(1)). The latter specifies that the common property is owned by the body corporate, but held beneficially for the individual unit title holders (Unit Titles Act 2010, s 54(1)). Presumably, it is the body corporate who suffers loss under either Act and is responsible for remedying the damage (Rod Thomas “Damage to Common Property in a Unit Title — Who Suffers the Loss?” in The Leaky Building Crisis: Understanding the Issues (Brokers Ltd, Wellington, 2011) 185). However, if this is not the case, each individual proprietor would have to prove the existence of a duty of care and the quantum of damages, which would impose a huge burden on individual unit title holders.

USEFUL COMPARATORS AND POSSIBLE LAW REFORM

From our early research, it seems that issues and problems that arise in the implementation of green lease/building policies and other energy-efficient strategies which, in some cases, have resulted in effective law reform may be useful comparators for us, both in terms of the problems that arise with repairs, renovation and the like of multi-dwelling units on a single title and what might be the drivers for appropriate law reform.

Some of the literature we have collected is apposite.

Individual or collective responsibility

In any multi-dwelling unit complex, the tension between individual and communal rights and responsibilities will always be evident. The discussion above is testament to this. The interests of an individual will generally be driven by economic and lifestyle factors, and this can impact dramatically on the ability of a community of dwelling owners in a multi-dwelling complex to repair or rebuild the building or buildings. For instance, in terms of “going green”, a home owner is more likely to “add energy efficient features if there are cost savings, installation is easy and/or convenient and the features provide greater comfort” (S Bond “Barriers and drivers to green buildings in Australia and New Zealand” (2011) 29 Journal of Property Investment & Finance 29(4/5) at 498). It has also been suggested that “adoption of environmentally friendly behaviours is greatest where it is convenient and where it does not require large investments of time or money” (Bond, above). In multiple-occupancy properties, an individual’s economic/lifestyle interest must be balanced against general collective responsibility.

Barriers

Some of the legal and practical barriers for implementing energy efficient upgrades largely mirror similar roadblocks for individual unit title owners and their body corporates.
and, indeed, for the co-owners of a cross lease property. These have been usefully categorised by a number of academics. In terms of their relevance to our project, they comprise:


- conflicting incentives (for example, where one party makes an investment decision and the other shoulder the financial responsibility): G C Bain “Promoting Energy Efficiency Retrofits for Multiple Unit Residential Buildings: a review of the effectiveness of alternate approaches” University of Victoria, July 2015; N Peretz “Growing the energy efficiency market through third-party financing” Energy Law Journal 30 377;

- consent barriers (one party requires the consent of the other to do repairs and when is that consent unreasonably withheld): Bright, above;

- consensus barriers (the necessity for either unanimous or a significant majority in multiple-occupancy properties before works can be undertaken): Bright, above; Bain, above; and

- the “hassle” factor (Dawson et al, above) which might include:
  - buildings “hard to treat”;
  - “block title” complexity (in other words, mixed use);
  - identifying the relevant parties;
  - costs (for example instructing lawyers, agents, or mortgagees, and Land Registry costs): Bright, above;
  - financial barriers such as lack of appropriate financing bodies, high transaction costs, and overall economic conditions: Bain, above, citing Rezessy et al;
  - the mix of individual and collective forms of ownership inherent in unit titles which inhibits participation in the management of the buildings (and requirements around voting): Bain, above, citing Rezessy et al;
  - the varying degrees of understanding, due to the makeup, background and financial means, regarding the costs and benefits within the group of owners: Bain, above, citing Rezessy et al.

In terms of collating and assessing what problems exist across the various types of multi-dwelling units on a single title, the list above is very helpful. And, as one commentator suggests, identifying the barriers may assist any government in terms of necessary law reform (Bain, above).

**Government-led initiatives**

The end point of our project is to explore possible law reform. In much of the writing about energy-efficient initiatives, it is clear that input from the relevant government is crucial.

Parallels have been some buy-in from governments world-wide in terms of the implementation of green lease directives and environmentally sustainable practices (see, for instance, the National Green Leasing Policy, Ministerial Council on Energy & the Australasian Procurement and Construction Council, Australia; Björn Åstmarsson, Per Anker Jensen and Esmir Maslesa “Sustainable Renovation of Residential Buildings and the Landlord/Tenant Dilemma” (2013) Energy Policy 63 355–362). On the other hand, other governments have failed to address the issue or have significantly modified a robust proposal (there has been minimal government intervention in Canada and the Green Deal in the United Kingdom was abandoned by the United Kingdom government due to lack of support). As we investigate various jurisdictions, we will be looking for various strategies that were employed to spark political interest. It is interesting to note the Government’s response to the energy-efficient debate. It has addressed its commitment through such vehicles as the enactment of the Resource Management Act 1991, EnergyWise packages of incentives such as insulation and green heating and other programmes. Moreover, in the aftermath of the Canterbury earthquakes, the Energy Efficiency and Conservation Authority (EECA) performed remarkably well with a number of initiatives (see, for instance, design advice for commercial buildings, supporting the Christchurch Agency for Energy to commission feasibility studies to evaluate the potential of a district energy scheme, improving efficiency of homes during the recovery, commissioning a review of viable more energy efficient and cleaner alternative public transport for New Zealand cities, and the Chimney Replacement Programme). In its broadest sense, the aim of our research is to help create a more efficient, cost-effective and user-friendly use of urban land for multiple dwellings, and mixed commercial/residential uses. Politically, this seems to pair well with any energy-efficient programmes. Both lead to more sustainable, and therefore, more liveable, cities.

**Law reform**

Potential law reform possibilities have been noted above with regard to retirement villages and unit titles. Space precludes describing the numerous problems with cross leases. These will be investigated fully in our report.

In 1999, the New Zealand Law Commission released its report, *Shared Ownership of Land* (NZLC R59, 1999). In 2005, the Department of Building and Housing in consultation with the Ministry of Justice and Land Information New Zealand included some of the Commission’s recommendations relating to unit title developments in the Unit Titles Act 2010. No response was made with respect to cross leases. The Report made a number of recommendations that included

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provision for voluntary conversion of cross-lease schemes to subdivisions, a compulsory conversion to subdivision or a unit title scheme if a further interest (for instance, a mortgage) was to be registered on the cross-lease title and a mandatory date beyond which no cross lease instrument could be registered. The essence of the Report was that no further cross-lease schemes should be permitted and those that exist should be converted. Unfortunately, the Government did not proceed with these recommendations. If it had, many of the problems with cross leases that occurred after the Canterbury earthquakes would have simply disappeared.

CONCLUSION
Building more sustainable cities is an important goal for many countries. We hope that our research will not only create a more user-friendly use of urban land for multiple dwellings, and mixed commercial/residential uses but will also provide a greater capacity for both cities and individuals to recover from natural disasters and phenomena such as New Zealand’s leaky building crisis.

The authors (together with Professor Jacinta Ruru of the Faculty of Law, University of Otago) are extremely grateful for the generosity of the Building Research Levy through the Building Research Association New Zealand (BRANZ) and the New Zealand Law Foundation for the funding to make this research possible. Our surveys are aimed at a wide-ranging sector of the New Zealand community. Nonetheless, we may miss either an individual who, or an organisation which, has an invaluable contribution to make. We would welcome that information. Our email contact address is lara.goddard@canterbury.ac.nz.