Resilient Organisations

Report 2

Asia Pacific Economic Cooperation

The Canterbury Earthquakes:
Challenges and Opportunities for
Central Business District Organisations

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2 May, 2012
Why Consider Central Business Districts?

Organisations locate strategically within Business Districts (CBDs) in order to cultivate their image, increase their profile, and improve access to customers, suppliers, and services. While CBDs offer an economic benefit to organisations, they also present a unique set of hazard vulnerabilities and planning challenges for businesses.

As of May 2012, the Christchurch CBD has been partially cordoned off for over 14 months. Economic activity within the cordoned CBD, which previously contained 6,000 businesses and over 51,000 workers, has been significantly diminished and organisations have been forced to find new ways of operating.

The vulnerabilities and resilience of CBDs not only influences outcomes for CBD organisations, but also the broader interconnected (urban/regional/national) system. A CBD is a hub of economic, social, and built infrastructure within a network of links and nodes. When the hub is disrupted all of the people, objects, and transactions that usually flow into and out of the hub must be redirected elsewhere. In an urban situation this means traffic jams in peripheries of the city, increased prices of commercial property, and capital flight; all of which are currently being faced in Canterbury.

This report presents the lessons learned from organisations in CBDs affected by the Canterbury earthquakes. Here we focus on the Christchurch CBD; however, several urban town centres were extensively disrupted by the earthquakes. The statistics and discussion presented in this report are based on the results of an ongoing study conducted by Resilient Organisations (www.resorgs.org.nz). The data was captured using two questionnaire surveys of Canterbury organisations (issued November 2010 and May 2011), interviews with key informants, and in-depth case studies of organisations. Several industry sectors were sampled, and geographic samples of organisations in the Christchurch CBD, Lyttelton, and the Kaiapoi town centre were also collected. Results in this report describing “non-CBD organisations” refer to all organisations outside of the Christchurch CBD, Lyttelton, and Kaiapoi town centres.

1. CBD Vulnerabilities

1.1 Building types

CBDs by their nature have high building density. As a result, in the earthquakes pounding damage between buildings (where buildings hit each other, Figure 1) was far more frequent in the Christchurch CBD than other areas of Christchurch (Cole et al., 2010). CBDs also tend to have higher concentrations of historic buildings and buildings constructed of unreinforced brick masonry. These structures, often built before seismic building codes, tend to be more earthquake prone and far more expensive to retrofit and repair. In an early assessment following the February earthquake over 50% of unreinforced buildings visually surveyed...
were severely damaged and it is probable that many more were damaged beyond economic repair (Ingham et al., 2011). The loss of historic buildings, including the iconic Christchurch Cathedral, alters the urban aesthetic and tourism landscape as Canterbury rebuilds.

1.2 Neighbourhood effects

CBD organisations, being in close proximity, are more vulnerable to neighbour effects. Following both the September 2010 and February 2011 earthquakes, organisations in the Christchurch CBD were more likely to be disrupted by damage to neighbours and cordons put in place around damaged buildings, than by damage to their own buildings. In a Resilient Organisations questionnaire issued after the February 2011 earthquake 94% of organisations located within the Christchurch CBD indicated that their organisation was “located within a cordoned-off area” compared to only 9% of organisations outside of the CBD areas surveyed.

Businesses in the Christchurch CBD were more likely to experience reductions in revenue following the earthquakes than those outside of the urban centres (Table 1).

<table>
<thead>
<tr>
<th>Organisation Location</th>
<th>Revenue Decreased</th>
<th>Revenue Increased</th>
<th>No Change</th>
<th>Did not report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christchurch CBD</td>
<td>58%</td>
<td>19%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>Non-CBD</td>
<td>37%</td>
<td>29%</td>
<td>23%</td>
<td>11%</td>
</tr>
</tbody>
</table>

These organisations were also more likely to close temporarily following the earthquakes (Table 2) and tended to stay closed for slightly longer. CBD organisations that closed temporarily, closed for an average of 8 days following the September 2010 event and 22 days following the February event, compared to 7 days and 19 days respectively for non-CBD organisations. In many cases these losses were a result of building inaccessibility due to damage or cordons.
Table 2: Organisational closure following September 2010 & February 2011 earthquakes

<table>
<thead>
<tr>
<th>Organisation Location</th>
<th>September 2010</th>
<th>February 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Close Temporarily</td>
<td>Close Permanently</td>
</tr>
<tr>
<td>Christchurch CBD</td>
<td>80%</td>
<td>6%</td>
</tr>
<tr>
<td>Non-CBD</td>
<td>46%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Longer term revenue losses are more likely to be caused by indirect losses. Following the September earthquake (which resulted in relatively minor CBD damage compared to the February earthquake) several businesses reported that people were avoiding dense urban areas or areas with buildings they perceived as unsafe. Some popular CBD hospitality areas were acutely affected by these perception shifts, as they were in relatively enclosed areas surrounded by brick masonry buildings. Similarly, following the February earthquake, organisations that were open but operating near the CBD cordon lost business because clients assumed they were closed or would rather travel to areas where more businesses were open.

Changing perceptions about safety has also affected the staff of organisations. Over 70% of organisations in the Christchurch CBD reported that staff did not feel comfortable returning to their building as a result of the earthquakes, compared to 36% of organisations outside of the urban centres.

1.3 Organisational vulnerability

CBD organisations in Christchurch, as in many other urban areas, are far more likely to lease rather than own their premises. Approximately 47% of non-CBD organisations compared to 9% of CBD organisations surveyed in 2011 owned the building from which they operated. Organisations that leased their premises reported difficulties getting information and access to their buildings following the earthquakes as Civil Defence organisations dealt primarily with only building owners. Also for various reasons, including greatly increased insurance premiums and higher demand for commercial property in the city, many organisations are now facing inflated lease prices for the same or similar properties occupied prior to the earthquakes.

CBDs are especially attractive for organisations in hospitality and retail. Following a disaster people often decrease spending on ‘non-essentials’ which affects these organisation types more than others. Hospitality and retail organisations can also find it more difficult to reopen elsewhere. Hospitality organisations have equipment and health and safety restrictions, while retailers (especially fashion retailers) tend to be more successful in agglomerations (clusters of like-businesses). As a result, the large numbers of CBD businesses that rely on consumers’ discretionary spending are more vulnerable to disasters.
2. Recovery and Adaptation

2.1 Relocation

The high degree of building damage and cordon loss within the Christchurch CBD has led to a higher prevalence of relocation for CBD organisations. Relocating organisations following a disaster face a compromised rental market. Several organisations have reported accepting locations that do not fully suit their needs and have had to cease aspects of their business until suitable facilities can be acquired. Other relocated organisations have reported finding that their new premises suit their needs better than their old premises. They realise that the premiums they were paying for a central property were not yielding financial benefits prior to the earthquake, and they have more locational flexibility than they previously believed.

2.2 Planning and New Urban Configurations

Relocating organisations are signing long term leases in new locations throughout the Christchurch area. Shopping malls, suburban office complexes, and peripheral light industrial areas are currently providing most of the services that the CBD was previously providing. This may result in the emergence of new hubs or the development of pockets of specific industries as opposed to the re-creation of a centralised business core.

The Christchurch City Council has instituted a rigorous planning process for the CBD, including extensive consultation with the public and ongoing communication with businesses, following the February earthquake. However, businesses cannot wait years for the implementation of a plan, and therefore permanent reconfigurations will emerge outside of the CBD for some organisations.

2.3 Cooperation and collaboration

The Canterbury earthquakes have presented organisations throughout Canterbury with an opportunity to reinvent themselves, capture new markets, and form new partnerships. There are indications that many businesses, during the initial period following the earthquake, moved away from “survival-of-the-fittest” business models to one that emphasised collaboration and mutual benefit.

Within a CBD environment, organisations can work together forming economic clusters for co-promotion and support or to share resources. Several businesses from the information, communications, and hi-tech industry, with support from the Canterbury Business Recovery Trust, have developed the Enterprise Precinct and Innovation Campus (EPIC) (Recover Canterbury, 2012). EPIC is a development for 17 earthquake affected ICT companies to rebuild on the same campus within the CBD to promote collaboration and innovation.
Several organisations have questioned when the CBD will gain the “critical mass” of businesses necessary for the area to again become a vibrant functioning city. Such coordinated collaborations may be the best way to repopulate the CBD. These clusters of reconstruction reduce the risk of isolation for pioneer organisations who want to reopen in the CBD.

3. Reconstruction and Long-term Recovery

With the massive demolition and reconstruction process that will occur in Christchurch over the next decade, urban organisations are aware that there will be ongoing disruptions to their operations, but many are unsure of how to plan for the anticipated impacts of reconstruction.

Where possible the City Council and others have tried to alert the public and businesses of ongoing and future construction projects. For example the Stronger Christchurch Infrastructure Rebuild Team sends weekly emails to anyone who signs up, detailing ongoing progress, where and when future projects will commence, and what kinds of disruptions to expect. However, awareness of potential issues is not enough to mitigate their effects and the prospect of operating within a construction site may be a disincentive for organisations considering relocated to the CBD.

The reconstruction of the Christchurch CBD is predicted to drive the economic recovery of New Zealand from the recession (de Raad, 2011). As occurred with New Orleans following Hurricane Katrina and Fukushima following the Great East Japan earthquake, a small minority have called for the abandonment of the Christchurch CBD. Despite ongoing uncertainties about what will emerge, there is however a general commitment for the CBD to be rebuilt and reabsorb its function as a hub of economic activity for the South Island. How vibrant this future hub will be is contingent on several key variables including the civic and private management of the rebuild, business confidence, insurance availability, and cost.

4. References


