

Perspective

Broad, bold vision for city needed

Architectural practice Warren and Mahoney has done 10 interviews with key business and community leaders to promote discussion and ideas on rebuilding Christchurch. In the fourth of the series, architect RICHARD MCGOWAN talks to JUSTIN MURRAY, managing director of Murray & Co.

Justin Murray: I describe the opportunity in front of us like this: "to establish Christchurch as one of the great small cities of the world." Because that, to me, encapsulates the opportunity and the vision that we should be striving for.

Richard McGowan: Following the earthquake, you went on a fact-finding trip with some city councillors and local business people to San Francisco. I imagine a huge amount of useful information has come out of this?

JM: Absolutely. There was a good combination of elected representatives from the council and six members of the private sector from a cross-section of firms. I was there in a financing and investment capacity, but also as a vitality interested member of the community. The trip comprised a series of meetings with various San Francisco City Hall entities and personnel, including Recover San Francisco, its economic development unit and its capital planning and allocation unit. Someone who stood out was Douglas Ahlers, who is a professor at the Kennedy School of Government at Harvard University. He made the point that whether the disaster is the result of an earthquake or civil war, the means and process of recovery and the milestones, challenges and opportunities are strikingly similar.

RM: Based on your observations, what mistakes do we not want to make, and what things must we do properly?

JM: Firstly, it's still early days for us, but we received numerous observations, and compliments, that so soon after the event we were already thinking critically and constructively.

Secondly, vision and momentum are important and they drive confidence and energy.

At this early stage it's not so much the detailed vision that is vital, but more the broader vision. And it needs to be bold, easy to articulate and something that invigorates the community.

If the process is seen to be stalling, then confidence and energy are undermined, and frustration goes through the roof. So talking about the vision is very important.

RM: The CBD of Santa Cruz was flattened in an earthquake in 1989. What did you learn from talking to them?

JM: Santa Cruz is a town of about 65,000 people an hour and a half south of San Francisco. Most of their retail was in the CBD and 80 per cent of the buildings were destroyed or needed to be demolished. So the issue was: do they establish a temporary replacement, or something which is more medium term, or do nothing until they can actually put back a permanent solution? They decided it was essential to get momentum going, but it had to be clearly temporary because if it appeared to be longer term, it would take the pressure off solving the permanent issue. So they established a series of tents, and the last of their retailers left the tents between 12 and 18 months after the event.

Another interesting lesson from Santa Cruz was that, before the quake, they had a very divided council and community. Following the quake, the council decided it needed to be a force for good - healing the community, bringing people together. So it convened the "gang of thirty-six", which was in part council appointees and in part community appointees with strong representation from the business and investment community. The council delegated the most of the planning and rebuilding decision making to the "gang of thirty-six".

RM: Might we see something similar here?

JM: I'm not sure, but the council representatives on the trip certainly took on board that transparency and engagement with the community, with business and investment is essential. If the rebuild doesn't give confidence to business, investment will not flow, jobs will not be there, incentives won't be



Early days: Justin Murray, managing director of Murray & Co, says the aim should be to establish Christchurch as one of the great small cities of the world.

Photo: STACY SQUIRES/FAIRFAX NZ

present - the rebuild is essentially undermined. So business is important.

It was also interesting that the key "gang of thirty-six" meetings were shown live on community television. They took the whole transparency thing to an extreme!

Another point was, the people in the Santa Cruz Chamber of Commerce who showed us around were all in their early to mid-60s, so at the time of the quake they were our age. They knew their rebuild was a long-term project, but they had sufficient experience and energy to see it through.

The lesson I took from this was the importance of having younger people involved.

RM: Looking at your own area of interest, what investment insights did you glean from the trip?

JM: It is essential from the outset to be aware of the financing challenges. When people asked us what our vision for Christchurch was, they would say "great, how are you going to pay for that?" We were made aware how important private sector investment is - in San Francisco we were impressed by the number of modern, successful housing projects that were originated, funded and are still operated by charitable foundations.

Within reason, the more capital we are able to retain, attract and spend on the rebuild, the better our prospects of making good on the vision. I'm working on the assumption that the total capital cost of the recovery will be \$30 billion over a period of 10 to 15 years, which will be front-loaded. If \$10 billion comes from the insurance sector and \$10 billion comes from central and local government, where does the other \$10 billion come from? The answer is, the private sector - but only if the vision is

bold and compelling, the investment structure is strong and to best practice internationally, and there are robust investment incentives.

RM: What are some of the financial structuring challenges we might face?

JM: An example is where an insured commercial building is partly damaged. The damaged portion will be rebuilt according to a newer, more stringent building code and funded by insurance, but the portion that remains will not.

There are unlikely to be insurance funds available for the undamaged portion, and the owner may not be in a position to fund that upgrade. Either the owner has to take a significant discount in value in order to exit, or the property sits there in limbo.

A significant number of properties could fall into this category, thereby preventing optimal planning and

redevelopment of the CBD.

RM: So is there a funding mechanism to solve this?

JM: While there's no silver bullet, this situation is not unprecedented either. A mechanism used overseas is the "aggregated real estate holding company", driven by a belief that a master-planned "whole" will be worth more than the sum of its parts.

So we might see physically co-located buildings amalgamating titles.

Essentially, the property owners would contribute their property in exchange for receiving an ownership interest within the aggregated entity.

The entity would look to master-plan and redevelop the aggregated space, and it would also have the prospect - because it has achieved scale - of raising capital from external investors.

By virtue of scale and having raised

capital, this entity would be able to take a more patient approach.

It may choose to develop portions and then release these portions back to the market at a time that is optimal for valuation, rather than a situation where the entity is forced to divest assets into a market that is not in a position to acquire those assets.

RM: So this mechanism could be set up by Cera to allow the private sector to get on with its buildings?

JM: I doubt Cera would "set up" such a mechanism. I think this is more likely to be a private sector initiative, although it would certainly be important to have Cera's support and endorsement.

■ 10 Thoughts x 10 Leaders: a future for Christchurch can be viewed in full at warrenandmahoney.com