



## The Hidden Cost: How Seismic Assessments Impact Building Values and Smart Purchase Strategies

### Financial Impact on Property Values

- Buildings failing seismic standards face 10-30% value reductions
- Poor seismic ratings create permanent marketability issues
- Insurance premiums increase substantially or coverage is denied entirely
- Lenders often require retrofitting before approving financing
- Retrofit costs range from hundreds of thousands to millions

### Strategic Purchase Opportunities

- Price Reduction: Negotiate purchase price down by accurately estimated retrofit costs
- Seller Completion: Require seller to complete seismic retrofitting before closing as sale condition
- Escrow Arrangements: Seller funds dedicated account for future seismic retrofit work
- Credit Systems: Post-closing credits or favourable financing terms from seller

### Due Diligence Requirements

- Obtain independent seismic assessments from qualified structural engineers
- Get accurate cost estimates
- Understand seismic codes and permit requirements
- Investigate zoning and historical preservation complications
- Understand construction timelines and potential delays

### Long-term Value Benefits

- Retrofitted properties command premium values in earthquake-prone markets
- Better insurance rates and financing terms post-seismic retrofit
- Immediate equity gains possible once improvements completed

### Success Factors

- Thorough preparation with accurate cost estimates
- Understanding of local market conditions
- Strategic approach to maintain seller relationships
- Professional consultation for tax and legal implications

### THE BOTTOM LINE

Seismic deficiencies create negotiation leverage for informed buyers to transfer expensive remediation costs to sellers while securing safer, more valuable properties with better long-term investment potential.



In New Zealand, seismic assessments have become a critical factor in commercial property transactions. These evaluations can dramatically influence property values, financing options, and negotiation strategies. For savvy buyers, understanding the implications of seismic assessments opens opportunities to shift remediation costs to sellers during the purchase process.

## **Understanding Seismic Assessments and Their Market Impact**

Seismic assessments evaluate a building's ability to withstand earthquake forces, typically categorized into different performance levels ranging from life safety to operational continuity. Buildings that fail to meet current seismic standards often face significant value reductions, sometimes ranging from 10% to 30% of their market value, depending on the severity of deficiencies and local market conditions.

The assessment process involves structural engineers examining the building's foundation, framing, connections, and overall seismic resistance. Buildings constructed before modern seismic codes were established are particularly vulnerable to receiving poor ratings. The resulting report becomes a permanent part of the building's record, affecting its marketability for years to come.

## **Financial Implications of Poor Seismic Ratings**

When a building receives an unfavourable seismic assessment, several financial consequences emerge. Insurance companies may increase premiums substantially or refuse coverage entirely. Lenders often require seismic retrofitting before approving financing, as buildings with poor seismic ratings represent higher risk investments. Additionally, some jurisdictions mandate disclosure of seismic deficiencies, making it impossible to hide these issues from potential buyers.

The cost of seismic retrofitting can be substantial, often ranging from hundreds of thousands to millions of dollars for commercial properties. These expenses include structural reinforcement, foundation work, and bringing the building up to current seismic codes. For many property owners, these costs represent an unexpected and significant capital expenditure that can strain financial resources.

## **Strategic Opportunities in the Purchase Process**

Informed buyers can leverage seismic assessment findings to their advantage during property acquisitions. When a building has known seismic deficiencies or when an assessment reveals problems, buyers have several strategic options to shift remediation costs to the seller.

The most direct approach involves negotiating a purchase price reduction equivalent to the estimated retrofitting costs. This strategy works particularly well when the seller is motivated and the buyer has accurate cost estimates from qualified contractors. However, price reductions aren't the only option available to creative negotiators.

## **Alternative Negotiation Strategies**

Buyers can request that sellers complete seismic retrofitting before closing as a condition of sale. This approach ensures the work is done properly and removes the buyer's responsibility for managing the retrofit process. While sellers may initially resist this arrangement, they often prefer completing the work themselves rather than accepting a significantly reduced purchase price.

Another effective strategy involves establishing escrow accounts funded by the seller to cover future retrofitting costs. The seller deposits the estimated remediation amount into a dedicated account, allowing the buyer to proceed with the purchase while ensuring funds are available for necessary improvements. This arrangement can be particularly attractive to sellers who want to close quickly but cannot immediately complete retrofitting work.

Credit arrangements represent another creative solution where sellers provide post-closing credits or financing for retrofitting work. These agreements can include favourable interest rates or extended payment terms that make the financial burden more manageable for buyers while still transferring the ultimate responsibility for remediation costs.

### Due Diligence Considerations

Successful implementation of these strategies requires thorough due diligence. Buyers should obtain independent seismic assessments from qualified structural engineers, even when sellers provide existing reports. Multiple opinions help establish accurate cost estimates and identify potential issues that might not be apparent in initial assessments.

Buyers should also investigate potential permit requirements, construction timelines, and any zoning or historical preservation issues that might complicate retrofitting efforts.

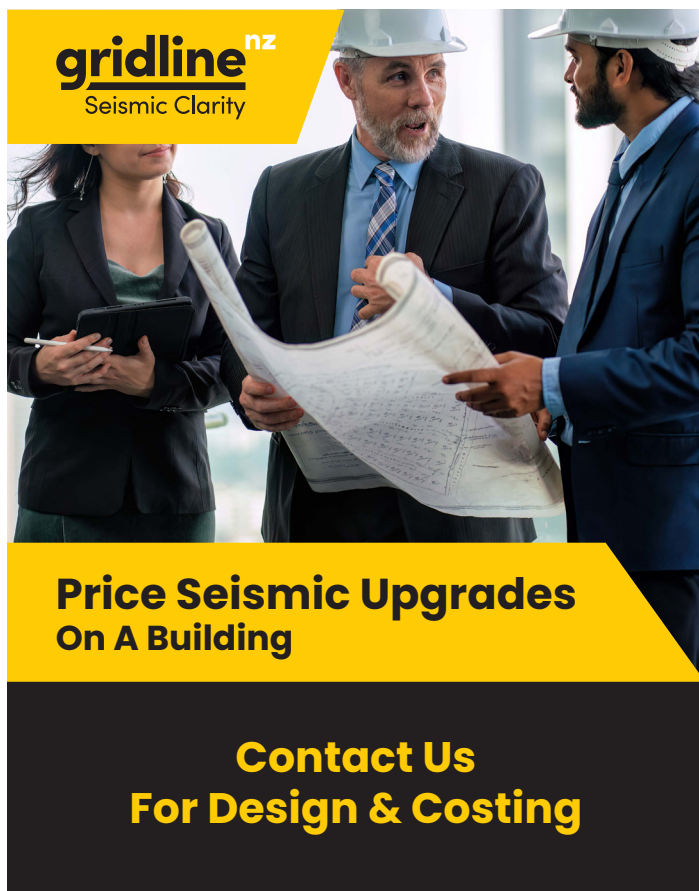
### Long-term Value Considerations

Properties with completed seismic retrofitting often command premium values. Buyers who successfully negotiate seller-funded remediation can potentially realize immediate equity gains once improvements are completed. Additionally, retrofitted buildings typically qualify for better insurance rates and financing terms, improving long-term cash flow and investment returns.

### Conclusion

Seismic assessments significantly impact building values, but they also create opportunities for strategic buyers to negotiate favourable purchase terms. By understanding the financial implications of seismic deficiencies and employing creative negotiation strategies, buyers can effectively transfer remediation costs to sellers while securing properties with long-term value potential.

Success in these negotiations requires thorough preparation, accurate cost estimates, and an understanding of local market conditions. Buyers who approach seismic assessment issues strategically often find themselves in advantageous positions, acquiring properties at favourable terms while ensuring necessary safety improvements are completed. In earthquake-prone regions, mastering these negotiation techniques can mean the difference between a challenging investment and a profitable real estate acquisition.



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