

How will the floods affect property investors?

The summer floods have demolished thousands of homes, leaving people homeless and investors counting the cost. Shaun Curran assesses the impact the floods will have on the UK property market.

There are many variable factors to contemplate when choosing the perfect property to invest your money in, such as location, capital growth potential and price. But who, before this summer's events, would have predicted that the weather would ever become such a consideration? July turned out to be the wettest on record, with 129mm of rain falling, beating a record that had stood since 1936. As a result, thousands of homes in central and southern England were flooded and destroyed – including over 6,500 in Hull – and the conditions were so extreme that three people died in Gloucestershire, with a further six people dying around the country.

The Association of British Insurers estimates that insurance claims for flood damage will total nearly £3bn, with the

Government set to apply to the European Commission's European Union Solidarity Fund (EUSF) for £125-million-worth of flood aid. Ministers have already promised £46 million in Whitehall aid.

The devastating nature of the floods that have destroyed thousands of homes in England this summer has brought many issues into sharp focus. As well as wider departmental issues that new Prime Minister Gordon Brown must address (financial aid for victims, the amount of funding required for flood defences), there is one question all property investors must be asking themselves: how will the floods affect my future investments in both the short and long term?

This question has many elements to it. There are many issues to think about when purchasing property and it is highly

possible the floods could have a negative effect for investors. How will insurance companies react to events? What will be the effect on house prices in the worst-

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affected areas? Can you still expect house price rates to continue in the predicted trend? Will there still be interest from potential tenants in such areas? And what of those properties not affected that lie on renowned flood plain areas? All of these questions are relevant, and the serious investor will already be considering the answers.

The most obvious concern for investors is how the floods will affect the insurance policies of insurers and lenders. Insurance is a vital component when attempting to maximise profit margin and any increase in premiums would cost investors.

Unfortunately, this has already begun to happen. Norwich Union, which insures one in five households, has announced it is to increase domestic property insurance premiums by an average of 10%, with further increases for properties on and around flood plain areas. Aviva, which owns Norwich Union, has said the floods will cost it over £340million in claims, and admits the floods were a factor in the premium hike. The Royal Bank of Scotland, Britain's second-largest general insurance provider, has also admitted it is to increase premiums in the near future.

David Lawrenson, property consultant for lettingfocus.com, agrees that insurance hikes are a concern for all investors. Lawrenson is certain insurance premiums,

especially those in flood areas, may become unreasonably priced and that insurers will be more reluctant to take on clients with property in renowned flood sites.

Lawrenson said: “People's premiums will go up without question, and people's excess will rise. The worrying thing is, there is very little people will be able to do. The problem is that people will in all likelihood be unable to swap insurers, who will not

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want to take them on due to the risks involved. This leaves people stuck paying higher premiums and higher excesses.”

Lawrenson also thinks that unless the Government continues to give the necessary financial support for flood defences, insurance costs will continue to rise.

He added: “Insurance will continue to cover homes and will continue to cover flood claims as long as the Government looks after flood defences and gives the necessary funding to it. If no such defences are planned, or are inadequately planned, then there could well be problems.”

Another fear for investors is the effect on the value of the properties themselves. It remains to be seen how badly affected the property market will be in the flooded areas, but there is no doubt that prices will decrease, considerably so in some areas. There is also the distinct possibility that property built on flood plain areas not yet affected could see small decreases in value. David Lawrenson shares this view: “Prices will certainly go down. I believe they will fall, especially in more marginalised areas on the edge of flood plains. The floods have been so well documented that people are becoming more aware of the problem, and following on from the summer, people are definitely more nervous. Buyers are now being alerted to such problems more than ever before.”

Lawrenson also thinks that if a property is situated in an area that is notorious for floods, there could be a two-pronged effect; firstly, investors would be unwilling to buy, and secondly, tenants would be just as unsure about moving in.

He says: “If there was a serious risk, it would put me off buying a property. I would have serious reservations about the dangers. There may also be trouble getting tenants, that is a possibility. If local people

know an area has been flooded more than once, then it could be difficult to get a taker for the property.”

So what can be done to minimise the damage? In many respects, floods like the ones seen this summer are freak occurrences and are by no means the norm. Yet doubts persist that the Government did not do enough preparation to deal with such an

the necessary checks have taken place to ensure everything is done to prevent, and then to deal with, what has happened. This was obviously not the case in Gloucestershire.”

Bowser also thinks that to ensure investors can safely buy into such property, all aspects in the property industry must be working towards the same shared goal: to make property in flood areas a safe, minimum-risk, profitable investment.

He says: “We have to make sure everyone is pulling in the right direction, and that means all factors of property investment. Developers, local authorities, private investors and their advisors, solicitors, insurers – everyone needs to be more aware, and better prepared.”

There is no doubt that the floods have had a devastating effect on all involved, but from an investment point of view, worse could still be to come. With insurance premium increases and house price slides a given, the news that Gordon Brown plans to build three million new homes by 2020 – many of which will be on flood plain areas – will be met with trepidation by investors who have realised that, after this summer, the UK property market may never be quite the same again.

