

# PROPERTY RISK

## Saving New Zealand Inc.

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Climate change brings increased flooding

In August this year Melissa Heath presented a webinar hosted by the Property Institute called 'Understanding Property Risk'. The feedback was overwhelmingly positive and most comments were along the line of, 'That makes perfect sense – why haven't we done this already?'

**T**his article covers what is happening with property risk in New Zealand. But first, a quick overview for those who may not have had an opportunity to view the webinar yet.

### Christchurch Earthquake Sequence

The Christchurch Earthquake Sequence (CES) was a pressure cooker environment for learning, and on a daily basis for seven-and-a-half years I had every opportunity to examine the causes for the damage inflicted on the buildings of Christchurch. The single most important take away was that *where* a building was situated directly impacted the level of damage inflicted during the respective earthquakes.

It wasn't simply a case of distance from the epicentre as one would expect. It directly correlated to the land conditions under (and around) the structure in question, be it liquefaction, rock fall, cliff collapse, landslide, boulder roll, other structures, or any number of other hazards nearby.

A saving grace was that the offshore quakes of June and December were not large enough to generate tsunamis, as that would have added to the list of hazards that had already bitten property owners.

### Everyday versus slower hazards

Also, over my years of experience in disaster recovery I have observed equally horrific damage to property built in the path of 'everyday' hazards such as flood, fire, landslide and storm surge. I saw enough to understand what would happen in lahar, ash and lava

events. Similarly, the slower events are pretty awful too – coastal inundation and erosion, mass land movement, subsidence and tomo appearances. These are perhaps more financially destructive for property owners, as there is no insurance cover for slow and predictable events. They are specific exclusions to insurance policies.

Essentially, the grief, frustration and devastation that overcomes affected property owners for years after these events is largely avoidable.

### New insurance pricing regime

Right now, New Zealand Inc. is caught in a trap. The increasing frequency of natural disasters, combined with increasing costs to reinstate the damage wrought, is beginning to overwhelm our longstanding, world class ... and *cheap* ... insurance cover. In April this year, a new regime of insurance

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cover was introduced to New Zealand – risk-based pricing.

A lot of property has had cover that will in the coming years be found to be unaffordable – or simply not offered. This will instantly impact the market value of the affected property.

Also, the economic impact to New Zealand from a disaster where there is not enough insurance cover is too dire to dwell on for too long.

### Increasing number of properties

And so, to today ...

A firestorm of interest has been ignited, along with a desire for more information and a path forward. Not only in the sphere of valuers and property investors, but with banks, reinsurers, academics, local government, and now central government. I am pleased to report that so far the message is being heard and propelled higher and higher up the policy-making chain. There is clearly an urgency once the message is heard as it was only April this year that I seriously began to broadcast my message.

There are 1.7 million homes and 250,000 other buildings (both commercial and industrial) in New Zealand. The value of residential property in this country is over \$1 trillion and commercial property is a 10th of that. Each property carries (or should carry) insurance cover. There are about 800,000 mortgages on residential properties in any given year, turning over at an average of 130,000 new mortgages a year.

There are also more than 40,000 consenting applications made to councils

each year (for residential and commercial), which could be for new builds, repairs, renovations, extensions and land improvements. Applications are also made for change of use for existing buildings. Homes are converting from residential dwellings to short and long-term rentals.

### Help needed for risk assessment initiative

I mention these as they are valid points of capture for triggering a requirement for a property risk assessment, and I am working with interested parties to see if this can become a requirement through legislation. I am still firmly of the opinion that valuers and loss adjusters are the best people to complete these assessments.

For example, a risk assessment required at the time of a mortgage application (and I am proposing an easily interpreted reporting system) would let a buyer make informed choices. It would also give the lender confidence in the security of the asset mortgaged. Also, over time (perhaps within a decade), the property market would move of its own accord away from riskier property towards safer investments. These reports are being developed with input from the banks and local councils who most benefit from the reports.

Process, programmes and training is currently being developed and is progressing apace. A pilot project is proposed and could be completed early next year. Other matters are currently being discussed with the Ministry of Business, Innovation and Employment (MBIE).

Your contributions are valuable, and I urge you to get in contact with your ideas if you are interested in being part of this audacious project. The goal is to assess 170,000 properties per year. Local government have indicated they would like properties to be assessed every 10 years so this would be a permanent industry. We will therefore need a lot of assessors.

We Kiwis are an innovative bunch, and this project seems to be a world first. I would love you to be part of a team of committed suppliers who play a most important part in making New Zealand more resilient in times of disaster. Although there is still a way to go yet to get this initiative embedded and underway, there is clearly a will demonstrated. I'm now navigating a path forward. Your support is most appreciated 🙏



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