

Flood Risk and Property Values

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SUMMARY

The issue of climate change and its consequences is all over the media and has moved up the political agenda. Since the 1980's the number of extreme weather events has tripled worldwide. For example for Germany statistical predictions say that flood events that have occurred on average every 50 years in the past will take place every 25 years in the future. Flood damages on real estate can multiply and economical losses should not be underrated. The paper is based on a comprehensive survey of about 500 certificated property and valuation experts throughout Germany. The main objective of the survey was to examine whether and to what extent residential property values can be influenced by flood risk. The experts were asked to evaluate two different situations. First was the general location of a residential property in a formally designated flooding area and second the influence of a concrete flooding event. Results of the survey indicate the relevance of the topic. 65 percent of the questioned experts claim to consider flood risk within the valuation process. Flood risk in combination with a concrete flooding event is even considered through a high majority of 93 percent. A consideration within the valuation process primarily takes place through a discount on the unaffected property value. For the location in a designated flooding area a discount between 6 to 10 percent and for a flooding event more than 15 percent seem to be appropriate according to the survey results. In addition a higher property yield can reflect the flood risk compared to unaffected real estate. The experts were also asked if higher insurance premiums might affect property values. With 57 percent the majority disagrees with this statement. In contrast respondents see an extension in selling time up to 6 months. Under certain circumstances this might result in higher vacancy rates. The paper also looks into the real estate valuation process and provides advices for property and valuation experts to deal with flood risk in their daily work.