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NZ Property Pulse

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Where are the flood risks to property most acute?

Climate change is clearly going to be one of the key themes for the housing market in coming years. This includes its impacts on insurance cost and/or provision, lending and borrowing behaviour, and of course property values themselves. In a worst case, some homeowners may find themselves with a damaged property, effectively uninsurable (due to cost) and unsellable (maybe even unlivable), yet still possibly having to service a debt to the bank. This Pulse article examines regional flood risk more closely.

Recent research has already started to dig deeper

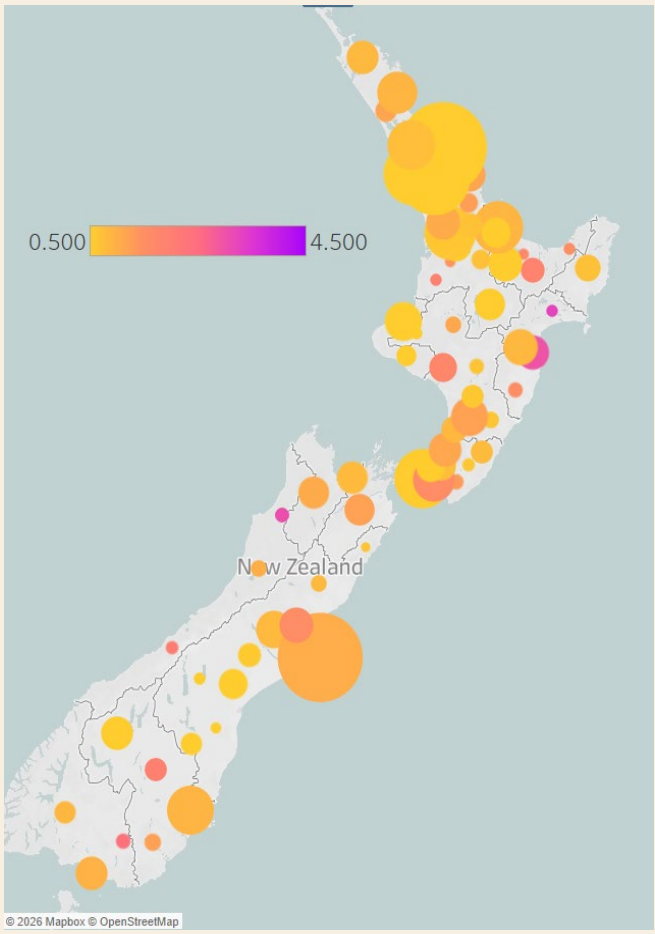
Cotality has already been looking at these issues lately, including some in-depth analysis of the effects of Cyclone Gabrielle on the property market, with particular reference to Auckland. It was no surprise to see that flood-affected properties or those with greater risk have a price discount to other comparable dwellings. But it was less expected to see that the values of the affected or riskier properties have since grown a bit faster than others – buyers are effectively accepting the risk in exchange for better affordability.

New data on relative flood risk by region

Utilising Cotality's partnership with Haskoning – a global consulting and engineering company for the natural and built environment – we've analysed flood risk at an individual property level right across the country, relating to three types of threat (fluvial or river, pluvial or surface/flash, and coastal) and across multiple different 'return periods', such as a 1 in 10-year event, 1 in 50, and so on. The raw data provided by Haskoning's New Zealand FloodMap model is extremely detailed so, for ease of use, for this analysis we've aggregated the risk from all of the various sources to give each property a relative risk score on a spectrum of 0 (low) to 5 (high).

To be clear, zero doesn't mean no risk, nor does five mean guaranteed floods. Instead, the scores give an indication of relative risk. It's also worth noting that although the main implications of these scores are for property owners, tenants' contents would also obviously be caught up in any flood event.

Weighted average flood risk scores – yellow is less risky (Source: Cotality)



Hawke's Bay and West Coast in the riskier bracket

Looking around the regions, it's important to note that many areas are still relatively low risk. Indeed, in 14 of the 72 areas covered (splitting Auckland Region into the seven 'old' council areas), at least 90% of properties only have a flood risk score of zero or one.

Between 80% and 89% of properties have the same low flood scores in another 24 areas. These areas with at least 80% of properties in the low range include all seven of the Auckland council areas, Hamilton, Porirua, Wellington City, and Dunedin.

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By contrast, there are eight areas where 60% or less of properties are estimated to have a flood risk score of zero or one – including Westland and Buller in West Coast, Wairoa and Napier in Hawke's Bay, as well as Whakatane and Kawerau in Bay of Plenty (alongside Waitomo in Manawatu-Whanganui and Gore in Southland).

We can also flip that around to look at higher scores. Wairoa has 66% of properties with a flood risk score of 3-5, Buller at 61%, Napier at 56%, Gore 50%, and Westland 43%.

To bring this all together, we've constructed a weighted average risk score, based on the total number of dwellings in each area. This is shown in the map below, with brighter yellow areas towards the less risky end of the spectrum and purple facing greater threats.

But the system as a whole may face greater danger elsewhere

Clearly, those are not encouraging results for homeowners in those riskier areas, nor their insurers, lenders, or local councils and central government for that matter.

However, it's also important to note that they're relatively small markets. Indeed, Wairoa, Buller, Gore, and Westland combined represent only 0.9% of all properties covered for this analysis. Napier covers another 1.4%.

This suggests that if we think about a combined likelihood x impact measure, the bigger flood threats to the financial system as a whole may actually tend to lie elsewhere.

Indeed, rather than proportions, if we now switch to the raw number of properties, Christchurch actually has the most in the 3-5 risk bracket, at around 24,000, followed by Napier (circa 13,900), Auckland City at around 11,300, and roughly 10,400 in Lower Hutt.

These results are broadly consistent with Reserve Bank analysis in recent years*, showing that Hawke's Bay, Wellington, and Canterbury are all areas that need to be monitored closely in terms of flood risk and the potential effects on the property market and hence wider financial system. Auckland should be included there too, given its size and of course the real event of Cyclone Gabrielle.

What does this all mean?

For individual property owners, their lenders, insurers, and government, these figures suggest that regions such as Hawke's Bay and West Coast (as well as Bay of Plenty, and parts of Manawatu-Whanganui and Southland) face greater risks than some other areas. Mortgages and insurance may be available and 'affordable' now, but there's a higher risk that this won't be the same in future.

More generally, there also needs to be an awareness of scale, and even though the proportional property-level flood risks may be lower in markets such as Christchurch, wider Wellington, and Auckland, the larger size of these areas means they need sharp focus too. Auckland's relatively high value housing stock is relevant here as well.

Ultimately, nowhere is truly 'safe' and these relative flood risks will change through time. Homeowners need to be fully aware of these factors, because in the end the risks will likely fall most acutely on them.

Indeed, although this article looks at flood *risk*, future work will look at whether the dwellings flagged 'at risk' have actually flooded.

https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2022/nov-2022/fsr-nov-2022-box-c

https://www.rbnz.govt.nz/hub/publications/bulletin/2023/rbb-2023-86-02

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