arla naea propertymark

Flood insurance review 2020
Response from ARLA Propertymark and NAEA Propertymark
July 2020

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents, representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.

2. NAEA Propertymark is the UK's leading professional body for estate agency personnel, representing more than 11,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

Questions

•What does the evidence tell us about the level of insurance cover held by those most recently affected by floods and the barriers they faced?

•Does this evidence point to any systemic issues in the provision of flood insurance?

•Does this evidence suggest any other issues regarding availability, affordability, barriers, or dissatisfaction with insurance coverage?

Overview

3. When considering how to ensure housing and other property developments can become more resilient to flooding, Propertymark has three main concerns about the re-insurance scheme Flood Re[1]. Firstly, it is not managing to cover all the properties the scheme was designed to include. Secondly, some high street businesses are unable to get cover. Thirdly, some landlords are unable to get a mortgage without the likelihood of cover. To this end, an estimated seven million homes remain excluded from the Flood Re insurance obligation, including 1.1 million leasehold homes and three million homes in urban areas. Propertymark has long held the view that Flood Re should be extended to the leasehold sector and the private rented sector. Flat owners, private rented sector landlords and renters are householders and should get the same guarantee as those who own houses.

[1] https://www.floodre.co.uk/

Feedback

Leasehold

4. The exclusion of leasehold properties is of concern and the UK Government should look specifically at leaseholders' access to cover under Flood Re where private residents in flats are treated differently to commonholders and freeholders because of their tenure. There are two main areas that need addressing. Firstly, the definition of leasehold by the insurance industry. Secondly, the impact on mortgages.

5. Building cover on leasehold flats must be arranged on a block basis to ensure that the whole building is covered. However, the insurance industry views such cover as 'commercial', even though the premiums are entirely paid for leaseholders via their service charge. The service charge will cover a leaseholder's own unit and common parts, but to qualify for Flood Re they must be insured on an individual basis or have an individual premium. Therefore, because someone has leasehold tenancy status, they cannot access cheaper buildings insurance for flood via Flood Re. This is not a case of subsidy for commercial freeholders since the tenant leaseholder pays for the premium. As a result, leasehold blocks have been excluded, effectively discriminating against homeowners who live in a flat and not a house. Under the current legislation this means that smaller leasehold blocks, smaller private rented sector landlords, and small businesses in flood risk areas may not find affordable cover.

6. However, it is a requirement of all mortgages that the borrower insures the building, including for flood. Data produced by the Leasehold Knowledge Partnership estimates that at the very least 840,000 leasehold properties are at risk of flooding and 70,000 leasehold properties are deemed at high risk of flooding.[2] For many of these, it will be impossible for the leaseholders to obtain reasonable priced insurance through the free market due to the high premiums. We know that mortgage lenders are concerned by the potential impact on customers if affordable insurance is not available. Furthermore, more expensive insurance (excesses and premiums) could impact a customer's ability to afford the mortgage. Not only will these increases directly impact those seeking to insure their properties, but they could also affect the wider operation of housing and mortgage markets. For instance, higher premiums may mean a reduction in a homeowner's ability to afford their mortgage, while high excesses might restrict loan to value rates, thus limiting the amount a customer is able to borrow. If a property cannot be insured affordably, then buyers will not be able to purchase it with a mortgage.

Private Rented Sector

7. Buy-to-Let property are not covered by Flood Re insurance subsidy and therefore insurance is expensive for thousands of landlords. If landlords in high flood risk areas cannot afford the premiums, this could lead to abandonment of property, a reduction in housing stock and

[2] https://www.leaseholdknowledge.com/

added pressure on local housing markets. According to figures from the Residential Landlords Association, between 50,000 and 100,000 rental properties are in flood risk zones.[3] Around 400,000 private homes are also in the zones and are likely to come under Flood Re. To address the issue, the UK Government should do two things. Firstly, like leasehold, private rented sector premiums should be classed as residential rather than commercial, and therefore benefit from Floor Re by contributing to it. Secondly, the UK Government should review the taxes currently relating to private landlords to determine what classification they deem landlords investing in property to be. This would help to determine the status of private rented sector property for Flood Re as well as help to provide consistency on tax for landlords. For instance, the UK Government must be consistent on whether buy-to-let is an investment or a business. If private rented sector premiums are to be classed as investment (residential) purchase rather than a commercial (business) investment, the sector would benefit from Floor Re by contributing to it.

Evidence and testimonials from Propertymark members

Letting agent in Doncaster, Yorkshire This is all a bad idea. We need to stop building houses in high flood areas. Doncaster Council, where I live, has just given planning permission for loads of developments that are all less than 3m above sea level. In areas, for those of us that know Doncaster well are natural flood plains and boggy ground. Almost guaranteed to have future problems. What we are basically saying is those of us that have no risk of flooding will need to subsidize the people that have purchased houses in higher risk areas. I do not blame the purchasers, guessing they must be thinking, if a big builder is building or has built and the council has given planning permission then measures will have been put in place to divert flood waters. As a canoeist, that used spend my social time canoeing and kayaking on the biggest rivers in the UK and worldwide, in space and flood conditions. I know better than most the ferocity of moving water. I do not know a single canoeist that has purchased a property in a risk area. The government need to help and advise the councils before planning permission is given for new developments and punish developers and the council when they get it wrong. How about making developers put large pots of money to one side. For clarity what I am saying is withdraw support for the whole scheme. If you want to do something worthwhile then can we deal with the injustice of how and when Insurance companies withdrew cover for high ground water, in properties that were built 60-70 years ago.

[3] https://news.rla.org.uk/flood-re-have-you-been-affected/

Letting agent in Tewkesbury, Gloucestershire

We are an Agent in Tewkesbury Gloucestershire. We had many properties flood in 2007. I have to say I do not come across so many Landlords complaining now, but this could be because they are used to their policies being more costly. I did take on a new property last week and the Landlord asked me to get a quote from the Insurance Company we use. It did have to go to the underwriters and was slightly more expensive than it would have been had the house not flooded in 2007 but they did accept it. I think a lot of the Landlords who were flooded in 2007 stayed with their existing Insurer as no others wanted to take the properties on but as we have no moved 10 years down the line I assume this is not such a concern now. The Environmental report says it is 1 in 100-year flood in this Tewkesbury. Having said that though I am sure some of our Landlords would be interested in anything that was going to save them money.

Letting agent in Cockermouth, Cumbria

The town has been significantly hit by flooding twice now but some areas within the town boundaries have been effected on more than 3 occasions which has caused significant hardship to some property owners, not just with the cost of the renovation work but some have lost rental income too. Just recently I was instructed to let a 3-bed terrace which the owners had lived in for over 20 years (they inherited a property which they moved into freeing up this property). They assured me they had the relevant insurance in place, so I proceeded to advertise then we found a tenant. At the last minute, the landlords checked their insurance policy to find they were not covered for letting so had to withdraw. So, the house will either sit empty (with the consequence that it could deteriorate quickly) or they will sell it at a significantly reduced price to reflect the market conditions/previous flooding issues.

Over the last few years, I have had several similar experiences and know many a landlord who cannot let their property for this reason. It seems that Flood Re also insist on an owner living in the property for 28 days out of a year which also causes a significant problem to tenants – with the cost and stress of renting, tenants are not prepared to rent if they have to move out by month 11. Currently we have a very strong demand for rented accommodation from tenants and rents are increasing due to lack of supply. Surely there must be a more sensible approach to this? Let us hope Flood Re can look at the bigger picture!

Letting agent in York

I own and run a property management / letting agency in York. We were flooded 26th/27th Dec 2015 with our ground floor office for 6 staff totally out of operation for 8 months. This included our server, phone system and all paper files up to desk height (the water stood 2.5 feet deep).

We manage 300 properties but only one was affected by the floods that time although we have several others that have been affected in other floods. York has two main rivers, so it depends which one floods! That particular landlord has obtained insurance once he installed flood resistant barriers (but these are reliant on the tenant being in the property when it floods!)

We managed to operate out of the 1st and 2nd floor of our offices all squashed together as we did not have an option to close. My insurance brokers were fabulous as were the insurance companies (I own the building so two separate polices) including taking 28 large crates of sodden paperwork away and drying each page individually and then refiling! But I now cannot obtain insurance cover for flooding (or I can with a £25K excess) It is so frustrating that the government are helping residential properties and yet not businesses at all.

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