

Diminution of Value (DOV)

due to Increased Liquefaction Vulnerability (ILV) land damage
(where the house has been or will be rebuilt)

FACT SHEET – November 2016

What is Diminution of Value (DOV)?

DOV measures the reduction of market value, caused by Increased Liquefaction Vulnerability (ILV) land damage.

When EQC cash settles ILV land damage, it assesses the customer's loss in one of two ways – either:

- solely on the basis of DOV; or
- on a combination of:
 - the amount it would cost the customer to repair the ILV damage to the land area sufficient to provide a building platform for the house (the repair cost); and
 - the reduction in market value (if any) of the rest of the insured land as a result of ILV land damage.

This fact sheet focuses on ILV settlements that are assessed solely on the basis of DOV. Furthermore, it only deals with those DOV settlements where the house that was on the property before the 2010-2011 Canterbury earthquakes has been or will be rebuilt.

EQC is settling these properties on the basis of DOV mainly because the customer cannot or does not intend to repair the ILV land damage. For more details, see “When is EQC using DOV to settle ILV land damage claims?” below.

Where the house that was on the property before the 2010-2011 earthquakes has been or will be rebuilt, the DOV only applies to the insured land on the property. The DOV does not apply to the associated residential buildings, such as the house, garage and garden shed.

When is EQC using DOV to settle ILV land damage claims?

EQC is settling ILV land damage solely on the basis of DOV unless EQC is satisfied that, in accordance with its Increased Flooding Vulnerability (IFV) and/or ILV Land Damage Consolidated Policy:

- the property has not been sold since the 2010-2011 Canterbury earthquakes;
- there is a repair methodology for the repair of the ILV land damage on the property;
- the customer intends to undertake the repair of the ILV land damage using the repair methodology within a reasonable period of time; and
- the repair cost is not disproportionate to the DOV of the insured land on the property, determined on a case by case basis.

Where it is necessary to remove and rebuild your house because of the extent of the earthquake damage, there may well be a ground improvement technique that can be used to repair the ILV land damage.

If you wish to repair the ILV land damage, then you should let EQC know. EQC may review its decision to settle your ILV land damage on the basis of DOV. See the question “What if my ILV land damage settlement was based on DOV, but I think the land can and should be repaired?” on page 2.

What did the High Court Declaratory Judgment say about DOV for ILV settlements?

The High Court confirmed in its Declaratory Judgment in December 2014 that EQC can settle ILV land damage by paying the amount of the DOV in appropriate cases.

EQC is settling ILV land damage in accordance with its IFV and/or ILV Land Damage Consolidated Policy which is available on the EQC website at www.eqc.govt.nz/ILV.

CONTACT EQC ON **0800 DAMAGE (0800 326 243)** OR VISIT US AT **WWW.EQC.GOV.T.NZ**

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What approach do EQC's valuers take to assessing DOV?

EQC's valuers, working closely with EQC's engineers, have developed a standardised approach to assessing the reduction of market value of the insured land on a property due to ILV land damage. This approach is designed to ensure that DOV is assessed in a consistent way for customers in this situation.

The methodology for determining DOV has been peer reviewed and approved by a panel of valuers, who were nominated by the major New Zealand professional valuation associations.

How is DOV assessed?

Where the house that was on the land before the 2010-2011 Canterbury earthquakes has been or will be rebuilt, EQC's valuers take the following steps to assess the amount of DOV of the insured land on the property with ILV land damage:

1. Establish the pre-earthquake value of the insured land on the property

EQC has appointed Northland Valuers Malone Limited to assess the market value of the insured land on the property as at 3 September 2010, the day before the first of the 2010-2011 Canterbury earthquakes.

This base valuation is a fair market valuation as at 3 September 2010 and is not distorted by the effects of the 2010-2011 Canterbury earthquakes on the property market.

2. Determine the amount of the reduction in the market value of the insured land because it has ILV land damage

EQC's valuers assess the long-term market reduction of value, taking into account the characteristics and practical implications of the ILV land damage. For the insured land on your property, this includes factors such as the increase in the property's vulnerability to liquefaction-related damage in a one in 25 year, and in a one in 100 year, earthquake event.

In assessing the DOV, EQC's valuers do not take into account any shifts in value resulting from matters other than the ILV land damage (e.g. a change in the building regulations and practices after the 2010-2011 Canterbury earthquakes).

The percentage of DOV is applied to the pre-earthquake value determined under Step 1. The result is a dollar amount of the reduction in value due to the ILV land damage.

3. Exercise valuation judgement in a final review

EQC's valuers carry out a final review to ensure the reduction in value determined for the insured land on your property is appropriate as a matter of valuation judgement.

How is DOV apportioned across my claims?

The DOV assessed for the insured land on your property is apportioned to earthquake events in proportion to the contribution each event made to the total ILV land damage caused by the 2010-2011 Canterbury earthquake sequence.

This apportionment will be reflected in your land settlement summaries that are enclosed with your settlement pack.

What if my ILV land damage settlement was based on DOV, but I think the land can and should be repaired?

In this case you can request a review of your settlement decision (see "How can I request a review of my ILV land settlement amount?" on page 3).

EQC may change the land settlement amount to be based on repair cost if EQC is satisfied that, in accordance with its IFV and/or ILV Land Damage Consolidated Policy:

- your property has not been sold since the 2010-2011 Canterbury earthquakes;
- there is a repair methodology for the repair of the ILV land damage on the property;
- you intend to undertake the repair within a reasonable period of time using the repair methodology; and
- the repair cost is not disproportionate to the DOV of the property, determined on a case by case basis.

Where the settlement amount is based on repair cost, the cost is based on the repair of the ILV damage to the area of land sufficient to provide a building platform for the house on the property. Any remaining insured land with ILV land damage will be settled on the basis of DOV.

For further information about ILV repair cost settlements, see www.eqc.govt.nz/ILV.



What is the applicable EQC land cap?

All land settlement amounts are subject to the land cap amount set out in section 19 of the Earthquake Commission Act 1993. The EQC land cap is generally the value of the area of insured damaged land or the value of a parcel of land that is the minimum lot size under the relevant District Plan, whichever is the smaller.

How can I request a review of my ILV land settlement amount?

To ask for a review of your land settlement amount, please email EQC with any supporting information at info@eqc.govt.nz or call on 0800 326 243 between the hours of 7am to 9pm, Monday to Friday, and 8am to 6pm on Saturday.

You can make a request for a review after the land settlement amount is paid.

Examples of the types of supporting information you could send with your request for a review include:

- information about a possible ILV repair method for the repair of ILV land damage on your property; or
- information about whether the house has been or will be rebuilt on the property; or
- information relevant to the pre-earthquake valuation of your property.

What do I have to do with my ILV land settlement amount assessed on the basis of DOV?

You may wish to use the ILV DOV settlement amount to mitigate the effects of any future liquefaction. But there is no requirement to do so. Your future EQC cover for the property will not be affected.

What does “has been or will be rebuilt” mean?

For ILV land damage assessment purposes, EQC considers that the house on a property “has been or will be rebuilt” where either:

- the insured land on the property is currently a vacant site; or
- the house that was on the property before the 2010-2011 Canterbury earthquakes:
 - currently remains on the property but is intended to be rebuilt on the property; or
 - is currently being rebuilt on the property; or
 - has already been rebuilt on the property.

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How do you determine that an ILV customer intends to rebuild their pre-earthquake house on the property?

EQC determines the customer's intent by taking into account relevant information, such as for example, statements made by the customer and/or their private insurer, and consent information obtained from the local authority. If you have new information about whether or not you intend to rebuild, you should let EQC know.

How would the DOV assessment as a result of ILV land damage be different if the house that was on the property before the 2010-2011 earthquakes remains in place and is not to be rebuilt?

In that case, the DOV assessment would be based on a different valuation methodology, which is used where the house that was on the property before the 2010-2011 earthquakes remains in place and is not to be rebuilt. The DOV would apply to the insured land and the associated residential buildings, such as the house, garage and garden shed.

By contrast, where the house has been or will be rebuilt, EQC's valuers use a valuation methodology developed for that situation. The DOV reflects the loss of value of the insured land only. The assessment of the DOV takes into account the impact of ILV land damage on the future use of the insured land, including as a building platform for a house.

Why is DOV assessed differently for properties where the house that was on the property before the 2010-2011 earthquakes has been or will be rebuilt (as compared to where the house remains in place and is not to be rebuilt)?

The different DOV assessments have been developed to take into account these two different scenarios:

- where the house remains in place and is not to be rebuilt, the claimant has a damaged asset (insured land) that is associated with a house that will stay on the land. The reduction in market value (DOV) will apply to the insured land as well as the house as a result of the ILV land damage;

- where the house has been or will be rebuilt, DOV cannot be assessed by reference to the pre-earthquake house. The pre-earthquake house is gone or will be gone. It will be replaced by a house that may have different characteristics and value. The potential characteristics and value of a new house will be reflected in the value of the insured land. The DOV will therefore be assessed for the insured land value only. This DOV assessment will take into account the likely impact of the ILV land damage once a new house is rebuilt.

The earthquakes caused cracking damage to my land. If I repair the cracks, could that help reduce the effects of liquefaction on my land in a future earthquake?

Yes. It is important that you repair the cracks to your land. The cracks are a category of land damage which is different to ILV. But if the cracks are not repaired, they will provide a pathway for the ejection of sediment to the ground surface in future earthquakes, and accordingly will contribute to an increase in liquefaction vulnerability.

EQC generally pays an amount for the cracking damage on the basis of repair cost. EQC expects that an amount paid for cracking damage on that basis will be used for the repair of the cracks. This payment will be part of any visible land damage settlement in your settlement pack.

For general guidance on repair methods that can be used for cracking damage that occurred on insured land as a result of the Canterbury earthquakes, see the Guide to Settlement of Canterbury Flat Land Claims, at www.eqc.govt.nz/visiblelanddamage.