

Diminution of Value (DOV)

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

Fact sheet –December 2016

What is Diminution of Value (DOV)?

DOV measures the reduction of market value which has been caused by Increased Flooding Vulnerability (IFV) and/or Increased Liquefaction Vulnerability (ILV) land damage.

Where EQC cash settles IFV and/or ILV land damage, it generally assesses the customer's loss on the basis of either, or a combination of, DOV or repair cost.

This fact sheet focuses on properties that have both IFV and ILV land damage which is settled solely on the basis of DOV.

Furthermore, this fact sheet 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. In these cases, the DOV reflects the impact of the IFV and ILV land damage on the value of the insured land on the property.

What approach do EQC's valuers take to assessing DOV for insured land on properties with both IFV and ILV land damage?

EQC's valuers have developed a standardised approach to assessing the reduction of market value of the insured land on the property due to both IFV and 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 due to both IFV and ILV land damage (the IFV/ILV DOV Methodology) has been peer reviewed and approved by a panel of valuers. Those valuers were nominated for the panel by the major New Zealand professional valuation associations. The IFV/ILV DOV Methodology is available on the EQC website at www.eqc.govt.nz/IFVandILV.



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How is DOV assessed for insured land on properties with both IFV and ILV land damage?

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 for the insured land on a property with IFV and ILV land damage:

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

The valuers use recognised techniques to establish the value of the insured land on the property as at 3 September 2010. To help determine this value, verifiable evidence has been gathered from a variety of sources. This evidence includes:

- information on sales for the area; and
- building age and size.

The valuation is made as at 3 September 2010, the day before the first earthquake in the 2010-2011 Canterbury earthquakes. This is to ensure that the valuation is a fair market valuation and is not distorted by the effects of the earthquakes on the property market.

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

To assess the amount of the reduction of market value due to both IFV and ILV land damage on the insured land on the property, EQC's valuers:

- a. assess the DOV due to the IFV land damage. See the box on page 4 for details on how this assessment is done;
- b. assess the DOV due to the ILV land damage. See the box on page 4 for details on how this assessment is done; and then
- c. add together all of one DOV and a proportion of the other DOV. The appropriate proportion is assessed in accordance with the IFV/ILV DOV Methodology.

EQC's valuers consider that simply adding together all of the IFV DOV (assessed under a. above) and all of the ILV DOV (assessed under b. above) would over-compensate for the combined IFV and ILV land damage. This is why they add together all of one DOV but only a proportion of the other DOV.

To elaborate, in assessing DOV for the insured land on a property with both IFV and ILV, EQC's valuers consider the reduction in market value caused by these two forms of land damage combined.

The market value is determined by how a willing buyer and a willing seller would treat the insured land on a property with both IFV and ILV land damage. EQC's valuers have formed the view that a willing buyer and a willing seller would not treat IFV and ILV independently. Instead they would likely treat the increase in flooding vulnerability and increase in liquefaction vulnerability as together impacting the future vulnerability of the property.

The DOV for the insured land on a property with both IFV and ILV land damage reflects the lower impact on the market value of one of those forms of damage, where the insured land on the property already has the other form of damage.

3. Exercise valuation judgement as to the resulting Diminution of Value

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

Why is there no indexing of the DOV assessment for IFV and ILV damage to reflect the increase in market land valuations in general in the Christchurch market in the last six years?

When doing the IFV and ILV land damage DOV assessment, EQC starts by assessing the market value of the insured land on the property immediately before the earthquakes (3 September 2010). EQC then uses this value as the base for calculating the reduction in value (DOV) of the insured land on the property that has occurred since that date as the direct result of the IFV and ILV land damage caused by the earthquakes.

In accordance with the EQC Act, EQC assesses the base value from the date immediately before the damage occurred. There is no scope under the EQC Act to choose a base value as at a future date (i.e. after the date of the damage), or somehow apply an index to increase the amount of the base value.

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 (EQC Act). 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 is DOV for IFV and for ILV land damage apportioned across the 2010-2011 Canterbury earthquakes events?

EQC apportions the DOV amount that is finally calculated for IFV and for ILV separately across the earthquake events. The DOV amount:

- for IFV land damage is apportioned to earthquake events in proportion to the contribution each event made to the IFV land damage caused by the 2010-2011 Canterbury earthquake sequence;
- for ILV land damage is apportioned to earthquake events in proportion to the contribution each event made to the ILV land damage caused by that earthquake sequence.

This apportionment will be reflected in the land settlement summary in the IFV and ILV land damage settlement pack for the insured land on the property.

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

To ask for a review of your land settlement amount, please email us with any supporting information at info@eqc.govt.nz or call 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. For example, you can request a review if you think the IFV and/or ILV land damage can and should be repaired, and that the settlement amount (or part of it) should be based on repair cost instead of DOV.

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

- information about a repair method for the repair of IFV and/or ILV land damage that you intend to carry out on the insured land on your property; or
- information relevant to the pre-earthquake valuation of the insured land on your property.

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

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

Assessment of DOV due to the IFV land damage

(The result of this assessment is an input used in the assessment of DOV for both IFV and ILV land damage - see step 2a on page 2 of this fact sheet)

How do EQC's valuers assess DOV due to IFV land damage (where the house has been or will be rebuilt)?

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

The same method is used as described on page 2 of this fact sheet.

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

To assess the amount of the long-term market reduction of value, EQC's valuers take into account factors, such as:

- depth of the increased future flooding;
- location of that flooding (including in relation to the likely location of a house that may be rebuilt on the land), and its likely frequency; and
- features of a property that make it more or less likely to lose value due to a risk of flooding. For example, the location of the property and its views are often major drivers of valuation. The location and views may be such that the market could reasonably be expected to attach less weight to IFV damage to the property.

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 IFV land damage.

3. Exercise valuation judgement as to the resulting Diminution of Value

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

Assessment of DOV due to the ILV land damage

(The result of this assessment is an input used in the assessment of DOV for both IFV and ILV land damage – see step 2b on page 2 of this fact sheet)

How do EQC's valuers assess DOV due to ILV land damage (where the house has been or will be rebuilt)?

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

The same method is used as described on page 2 of this fact sheet.

2. Determine the amount of the reduction in the market value of the insured land on the property 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 1 in 25 year, and in a 1 in 100 year, earthquake event.

In assessing the DOV, EQC's valuers will 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 due to ILV land damage determined for the insured land on the property is appropriate as a matter of valuation judgement.