

Response to the London Assembly's call for views on severe weather and climate change

Monday 14th July 2014

The British Property Federation is a membership organisation devoted to representing the interests of all those involved in real estate ownership and investment. We aim to create the conditions in which the real estate industry can grow and thrive, for the benefit of our members and of the economy as a whole. Our members can help the government deliver many of its policies, particularly those involving urban regeneration, sustainable communities, social inclusion, tax-efficient property investment, savings and pensions reform, carbon reduction and environmental improvement.

With 800,000 buildings in London being at risk of surface water flooding from excessive rainfall¹ and 99.9% of UK businesses classified as Small and Medium-Sized Enterprises (SMEs) by the department for Business Innovation and Skills², the London Assembly and the Government should support these businesses if it wishes economic growth to be maintained in the longer term.

The BPF believes that a key issue facing SMEs is their exclusion from the Government's proposed Flood Re scheme. SMEs are more vulnerable than big businesses and their existence could be threatened if they are unable to afford their flood insurance premiums. BIBA has provided evidence that SMEs are finding it increasingly difficult to obtain flood cover in high risk areas. This could have negative impacts on the UK economy as a whole but at a local level, on those communities who may lose access to local retailers and service providers.

Additional challenges will be faced by leaseholders who are also excluded from the Flood Re scheme. Buildings cover on leasehold flats is only ever arranged on a block basis, as required by leases, to ensure the whole building is covered. Whilst larger owners and managing agents of blocks will be able to buy cover at a competitive rate and dilute risk, smaller blocks owned and run by leaseholders will not have the same bargaining power and therefore may encounter affordability issues particularly if they are in flood prone areas.

The ABI believes that leasehold blocks will be able to diversify risk internally, because the top floors will not be flooded. However, diversification in small blocks will be limited and ground floor flooding will affect the whole block in terms of access, knocking out power and other common services. Buildings insurance is therefore as important as contents insurance and again, is a critical requirement of mortgage lenders for any mortgage.

DEFRA and the ABI have stated that the number of properties, particularly in the leasehold sector, who will not be able to access Flood Re and who are in flood risk areas is minimal. We do not believe this is the case. 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

¹ Climate UK, *A Summary of Climate Change Risks for London* (Jan, 2012)

² Department for Business, Innovation and Skills, *Business Population Estimates for the UK and Regions 2013* (Oct, 2013)

risk of flooding³. For a large number of these, it will be impossible for leaseholders to obtain reasonable priced insurance through the free market resulting in potentially sky-high premiums.

Indeed according to figures originating from the original Flood Re discussions, those households affected could face hikes of over £1,000 per annum per unit in their costs of insurance. We have examples of leasehold properties which have seen their premiums rise by 300-400%+ after flood events. One such example saw each individual leaseholder's contribution rise from about £400 per annum to £2,000 per annum.

The residents, businesses and infrastructure of London are at risk of not being economically resilient in the face of severe flooding in the future due to their exclusion from the Flood Re scheme; being unable to afford skyrocketing flood insurance premiums. If the London Assembly wishes to protect residents and businesses in London from the risk of flooding, then serious attention needs to be paid to the Flood Re scheme and those currently excluded from it.

³ The Leasehold Knowledge Partnership, <http://www.leaseholdknowledge.com/leaseholder-kingston-gets-6000-insurance-premium-10000-excess-flooded> (Feb, 2014)