

## ANALYSIS

## Fall in property prices after disasters only temporary

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Baron Rothschild may have said that time to buy is when there is blood in the street. But the same may apply to property purchases when there is water on the streets and inside homes. Home prices tend to nose-dive after a flood, but typically recover briskly, providing buyers an opportunity for gains.

### Price fall

The recent example is cyclone Hudhud that hit Vizag in October 2014. Prices dipped after the cyclone and investors quickly moved to Krishna, Guntur and Prakasam districts instead of Vishakhapatnam, says Pallav Pandey, Founder and CEO of Broex, a mobile app provider for property brokers. Analysis of six hurricanes in coastal regions of the US in 2004-2005 by the East Carolina University shows that property prices dip by about five per cent in the immediate two quarters.

The market in the flood-hit regions gets affected as home buyers and developers postpone their commitments or look elsewhere for property purchase.

Besides lack of buyer interest, another reason why prices fall is due to loss of infrastructure which leads to lower property value. Also, job and business growth may also take a hit in these areas, dragging property prices.

That said, sales may increase in nearby regions that were not impacted by the flood. For instance, after Hurricane Katrina, nearby satellite communities such as Baton Rouge, saw a 48 per cent jump in transaction volume over one year, according to the Greater Baton Rouge Association of Realtors.

### Quick bounce

Home prices, even in flood zones, tend to bounce back to the pre-disaster levels. After the 2005 tsunami, there were dire predictions that the passion for owning a home overlooking the sea in Chennai would take a backseat and demand would fall by over 60-70 per cent. But anecdotal data on coastal property prices in Chennai shows that prices, which fell to half after the tsunami, recovered to earlier levels within two years.

“In some of the major economies of the world, such as the UK, flooding has a short-term impact on the property prices and then the prices normalise within three year’s time”, says Bikram Sen, Director and CEO, ArthVeda Fund Management.

Likewise, prices in Queensland area of Australia stabilised within one year after Cyclone Yasi in early 2011 and bounced back after that, as per reports from the Real Estate Institute of Queensland.

What helps the recovery? For one, supply is limited as new projects may not be launched. Also buyers return to the market as the disaster memory fades and practical aspects such as connectivity of the location and affordability draws them back. Infrastructure may also improve, alleviating worries of a repeat issue.

“In India, we are yet to come across a scenario where the impact of a natural disaster had a hard hitting sustainable

impact on real estate”, says Ashwinder Raj Singh, CEO - Residential Services, JLL India.

### **Finding deals**

So does the price fall offer an opportunity for bottom fishing? “This can be an opportunity for buyers/investors to get short-term returns. But, for long term investors or end customers, it makes sense to only purchase at safe locations, as it will guard them against any similar disaster and may also command a premium for the same reason in the long run”, says Pandey.

Data from New Orleans shows that there continues to be a discount of four-eight per cent for homes in the flood plane compared to non-flood zone homes. Price appreciation was as high as nine per cent y-o-y in areas that did not flood.

Also developers whose projects did not experience water logging during a flood could appreciate well. Properties in flood zone that are at an elevation command a premium after a flood, based on global studies.

To keep one’s head over the water, buyers should consider a few things before jumping on an apparent bargain.

One, evaluate the developer’s ability to deliver, especially after the damages caused by the floods advises Sen. “There are huge losses of building materials. It will take builders sometime to recover the financial damages,” he says.

Singh says that while every micro market has shown recovery in the long term, there are still many instances of sluggish recovery.

Prices may bounce back faster if the civic infrastructure and transportation are improved, he says.

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