

How To Determine Substantial Damage

Questions and Answers

Q: In post-flood disaster situations, many permits for repair due to damage must be processed in a relatively short period of time. Given this, what does FEMA accept as reasonable sources for determining the cost to fully repair a damaged structure?

A: Acceptable estimates of “cost of repair,” or damage sustained, can be obtained from the following sources:

- 1) Itemized estimates made by licensed contractors, or other professional estimators, in the construction industry. (*NOTE:* all estimates should be submitted to the local building permit department for review and must be itemized for both materials and labor.)
- 2) For insured structures damaged by floods, the monetary damage estimated by the NFIP claims adjuster (structure only, not contents). Claims estimates of the damage sustained should be used primarily as a screening method to determine if a structure has been substantially damaged.
- 3) “Qualified estimates” of the amount of damage sustained, or cost of repairs, can be made by the local building permit department using professional judgment and knowledge of local and regional construction costs in the case where an unmanageable number of permits must be processed in a major post-disaster situation. Methods for making “qualified estimates” are prescribed in handbooks (*see* list of Building Codes and Other Construction Related Publications) published by several building-cost information services, such as Marshall and Swift. (*NOTE:* Although this technique may be less accurate than formal appraisals, in chaotic post-disaster situations it may be the only practical alternative.)
- 4) Building code valuation tables published by the major building code groups (BOCA, SBCCI, ICBO). These tables can be used for determining estimates for particular replacement items if the type of structure in question is listed in the tables. These tables should not be used for structures that are architecturally unique, exceptionally large, or otherwise different from the classes of structures that are listed in the tables (*see* list of Building Codes and Other Construction Related Publications).
- 5) Damage assessment field surveys conducted by building inspection departments, emergency management or tax assessment agencies, or other professional State or local officials. Such damage assessments should estimate the total monetary damage sustained to the structure.

Q: How should the market value of a structure be determined?

A: For the purposes of determining substantial improvement, market value pertains only to the structure in question. It does not pertain to the land, landscaping or detached accessory

structures on the property. For determining substantial improvement, the value of the land must always be subtracted.

Acceptable estimates of market value can be obtained from the following sources:

- 1) Independent appraisals by a professional appraiser.
- 2) Detailed estimates of the structure's Actual Cash Value (used as a substitute for market value based on the preference of the community).
- 3) Property appraisals used for tax purposes (Adjusted Assessed Value: used as a screening tool).
- 4) The value of buildings taken from NFIP claims data (used as a screening tool).
- 5) "Qualified estimates" based on sound professional judgment made by staff of the local building department or local or State tax assessor's office.

As indicated above, some market value estimates should only be used as screening tools to identify those structures where the substantial improvement ratios are obviously less than or greater than 50% (e.g., less than 40% or greater than 60%). For structures that fall between the 40% and 60% range, more precise market value estimates should be used.

Q: If property appraisals used for tax assessment purposes are to be used to determine market value, what are some of the limitations that should be considered?

A: FEMA promotes the use of adjusted assessed value as a screening technique for separating out structures that are obviously less than or greater than 50% damaged. This screening technique is applicable for cases where the ratio of cost of repair to market value (adjusted assessed value) is significantly less or greater than 50%. However, in post-disaster situations where no other market value estimates are available or where permit applications are overwhelming, adjusted assessed values may have to suffice as the definitive estimate of market value.

The use of assessed value has some limitations that, if not considered and accounted for, can produce erroneous estimates of market value. These limitations are:

- 1) **Appraisal Cycle:** How often are the appraisals done and when was the date of the last appraisal? Market value estimates can be grossly outdated if the cycle is long and the community happens to be in the latter stage of its cycle and has not been appraised for many years.
- 2) **Land values:** In most cases, land values and the value of improvements (structures) thereon will be assessed separately and listed as such on the tax roles. In cases where they are not distinguished, a determination of the value of the land will have to be made and subtracted from the total assessed value.
- 3) **Assessment Level:** States and local taxing jurisdictions vary in assessment levels (an established statutory ratio between the assessor's estimate of value and the true fair market value). For example, many states use an assessment level of 90%. In this case the assessed values will under estimate market values by 10%.

In cases where the assessment level is unacceptably low or where the projected ratio of cost of repair to market value is close to 50%, adjustments for assessment level must be made. If the use of assessed value is questioned, an appeal is warranted, but the burden of proof can be placed on the permit applicant who can be required to submit an independent appraisal by a qualified appraiser.

Q: Can replacement cost be substituted for market value when determining whether a structure was substantially damaged?

A: No. Replacement cost is the cost of replacing a structure with a structure of a like kind using present day costs for labor and materials. In the majority of cases, replacement cost is much greater than the market value of a structure. The use of replacement cost would make the substantial improvement definition much less restrictive (because it increases the second number in the ratio, it effectively raises the threshold to greater than 50% of market value). Therefore, replacement cost should not be used as a simple substitute for market value. Replacement cost may be used to estimate market value if the value of the depreciation of the structure is subtracted to determine the structure's actual cash value.

Q: How are estimates for donated or discounted materials determined?

A: The value placed on materials should be equal to the actual or estimated cost of all materials to be used or considered necessary in repairing all damages sustained by a building. The value should also be no less than that required to restore the building to its pre-damaged condition. Where materials or servicing equipment are donated or discounted below normal market values, the value should be adjusted to an amount which would be equivalent to that estimated through normal market transaction. These adjustments and estimates should be made by the local permit official based on his professional judgment and knowledge of the local or regional cost of construction materials and servicing equipment.

Q: How are estimates for self or volunteer labor determined?

A: The value placed on labor should be equal to the actual or estimated labor charge for repair of all damages sustained by the structure. Where non-reimbursed labor is involved, the value of the labor should be estimated based on applicable minimum-hour wage scales for the type of construction work that is done. This estimate should be made by the local permit official based on his professional judgment and knowledge of the local or regional wage scales for various types of construction work.