Estimating Repair/Improvement Cost

Repair Cost Sources

- Itemized estimates by licensed contractors or other professional estimators in the construction industry. (All estimates should be submitted to the local building permit department for review and must be itemized for both material and labor.)

- For insured structures damaged by floods: monetary damage estimated by the NFIP claims adjustor.
  - The estimate covers structure only, not contents.
  - Use claims estimates primarily as a screening method to determine if the structure has been substantially damaged.

- "Qualified estimates" by the local building department of the amount of damage sustained or cost of repairs.
  - Use of professional judgment and knowledge of local and regional construction costs when an unmanageable number of building permits must be processed in a major post-disaster situation.
  - Methods for making "qualified estimates" are prescribed in handbooks published by several building-cost information services such as Marshall and Swift.
  - This technique may be less accurate than formal appraisals, but may be the only practical alternative in chaotic post-disaster situations.

- Building code valuation tables published by 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 listed in the tables.

- Damage assessment field surveys conducted by building inspection departments, emergency management or tax assessment agencies, or other State or local officials. Such damage assessments should estimate the total monetary damage sustained to the structure.

Determining Market Value

For purposes of determining substantial improvement, market value applies only to the structure in question. Land, landscaping, or detached accessory structures on the property are not included. For determining substantial improvement, the value of the land must always be subtracted.

The following sources can provide acceptable estimates of market value:

- Independent appraisals by a professional appraiser.

- Detailed estimates of the structure's Actual Cash Value (used as a substitute for market value based on the preference of the community).

- Property appraisals used for tax assessment purposes (Adjusted Assessed Value: used as a screening tool).

- The value of buildings taken from NFIP claims data (used as a screening tool).
Determining Market Value (Continued)

- Qualified estimates* based on sound professional judgment made by staff of the local building department or local or State tax assessor's office.
  - 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.

Limitations on Appraisals Used for Tax Assessments

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 can produce erroneous estimates of market value. Limitations are:

- 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.
- Land Values:
  - In most cases, land values and the value of improvements (structures) on the land will be assessed separately and listed as such on the tax rolls.
  - In cases when both values are combined, a determination of the value of the land will have to be made and subtracted from the total assessed value.
- 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.
- The burden of proof can be placed on the permit applicant who can be required to submit an independent appraisal by a qualified appraiser.