

Important Issues to Consider When Purchasing A Home in a Flood Hazard Area

An overview of the impact of FEMA Regulations on coastal properties.

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Improved property in flood hazard areas has been subject to regulations that limit repairs and renovation since the late 1960's. The regulations focus on restricting enlargement and/or improvement of existing structures that do not conform to current building codes. The intent is to limit liability for the Federal Government which subsidizes the National Flood Insurance Program.

The “50%” Rule

- The regulations limit repair or substantial improvement of existing structures to less than 50% of the market value of the improvements.
- The market value excludes the value of the land as well as the value of other structures that are detached from the main structure.
- The source of market value can be the assessed value established by the county tax assessor
- Market value can be determined by a certified real estate appraiser. The appraisal should reflect the value of the improvements prior to the proposed renovation.

Important Issues

- Permits for renovation require submission of a cost estimate for the renovation along with evidence of the market value of the improvements.
- If the proposed renovation exceeds 49% of the market value of the dwelling, the structure must be brought into conformance with existing building codes. This can require elevation of the structure above the flood plain as well as strengthening of the structure to meet current wind and seismic loading requirements.
- The regulations cover ALL renovation over a five year period. Therefore, subsequent renovation projects are limited by the cumulative total of all renovation within the prior five years.
- The market value of the improvements can be updated at the time of each renovation. This provides the benefit of including the impact of any prior renovation on the value of the property.

Examples

A potential buyer is considering the purchase and renovation of a home that is valued at \$500,000. The improvements are located on a lot that is worth \$325,000. The property includes a detached garage that is valued at \$25,000. In order to determine the market value of the dwelling, subtract the lot value and garage value from the total value. This results in a market value of \$150,000 for the dwelling. The renovation of the home is limited to 50% or \$75,000.

(Note: The regulations state less than 50%, so the renovation must be less than \$75,000).

Assume in the prior example the buyer purchased the property and spent \$50,000 on renovation. Four years later, the homeowner decides to enlarge the dwelling with a proposed cost of \$75,000. When the property was purchased, the market value of the dwelling was established at \$150,000 resulting in a limit of \$75,000. Subtracting the prior renovation cost from the previous limit results in a new limit of

\$25,000 for the proposed addition. Assume the homeowner obtains a new appraisal that determines the value of the property has increased to \$600,000 as the result the prior renovation and market appreciation. In the new appraisal, the appraiser determined that the lot is now worth \$375,000 and the garage is worth \$25,000. This results in a \$200,000 market value for the improvements and a limit of \$100,000. Subtracting the prior \$50,000 renovation in this example leaves \$50,000 for the proposed addition. At this stage, the homeowner should consider several options. The addition project could be scaled back to reduce the cost to below \$50,000. Alternatively, the homeowner could elect to bring the home into conformance with current building codes. The last option would be to hold off on the project until the original renovation project is over five years in the past.

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Helpful Links and Information

FEMA-213 *Answers to Questions About Substantially Damaged Buildings* –May 1991
<http://www.fema.gov/library/viewRecord.do?id=1636>

FEMA F-084 *Answers to Questions about the National Flood Insurance Program*-March 2010
<http://www.fema.gov/library/viewRecord.do?id=1404>

Charleston County Frequently Asked Questions

<http://www.charlestoncounty.org/departments/buildinginspections/floodzonefaq.htm>

Charleston County Ordinance No. 1526 effective as of January 6, 2008

http://www.charlestoncounty.org/departments/buildinginspections/Flood_Ordinance.pdf

Section 9-10, Page 10

Substantial improvement means any reconstruction, rehabilitation, addition or other improvement of a structure, taking place during any five (5) consecutive years in the life of a building, the cumulative cost of which equals or exceeds fifty (50) percent of the market value of the existing structure at the date of “start of construction” of the improvement as determined by the Building Official. This term includes structures which have incurred “substantial damage,” regardless of the actual repair work performed. The term does not, however, include either:

1. Any project for improvement of a structure to correct existing violations of state or local health, sanitary, or safety code specifications which have been identified by the local code enforcement official and which are the minimum necessary to assure safe living conditions or
2. Any alteration of a historic structure, provided that the alteration will not preclude the structure’s continued designation as a historic structure.

Section 9-41

All new construction and substantial improvements of residential structures within Zones AE and AH on the Charleston County FIRM shall be elevated so that the top of the lowest floor level of the lowest floor (including basement) is elevated to or above one foot above the base flood elevation.