



Floodplain Manager's Notebook

MARKET VALUE SUPPLEMENT

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This month I'll talk about condominiums, cooperatives, and strange things called "coach houses." As before, I'll use either *structure value* or *building value* to mean the market value that should be used in SI/SD determinations. I'll use *whole-property value* when I mean the market value of a parcel of land including improvements.

Condominiums

Sometimes floodplain administrators receive appraisal reports in connection with permits for work on buildings "owned in condominium." Condominium is a type of real property ownership in which each owner holds title to his or her individual unit (usually a portion of the interior of a building), and shares ownership jointly of common property such as the land, the common-use portions of the building, recreation facilities, and other site improvements. Even if the condominium unit is legally defined as an entire building, as it sometimes is, there will be joint ownership of land and other improvements. It is incorrect to talk about a condominium in terms of being a building.

Appraisal reports identified as Fannie Mae form 1073 or Freddie Mac form 465 are commonly used for underwriting mortgage loans on individual condominium units. Alternatively, the report could be any of a variety of general-purpose condominium unit reports used to support tax code basis-value determinations, buy/sell decisions, or other related uses. None of these reports should be used to support SI/SD determinations because they are all designed and intended to report the *whole-property value* of an individual condominium unit.

Individual condominium unit appraisal reports rely almost exclusively on the sales comparison approach. There's no cost-depreciation approach. Occasionally, a community will receive a condominium unit report supplemented by a land sales analysis, maybe with some discussion of the contribution of jointly-owned improvements. Usually, this is the work of a well-meaning appraiser who doesn't understand that for an SI/SD determination, it's the market value of the entire physical building that must be appraised, not the individual unit.

Appraisals to support SI/SD determinations must always be appraisals of the building. An appraisal of an individual condominium unit is never appropriate, even when a permit application is submitted for work on just one unit. The only appropriate valuation method for buildings owned in condominium is Actual Cash Value (ACV).

Actual Cash Value (ACV)

FEMA P-758 [SI/SD Desk Reference](#), Section 4.5.3, describes actual cash value (ACV) as "the cost to replace a building on the same parcel with a new building of like-kind and quality, minus depreciation due to age, use, and neglect. ACV does not consider loss in value simply due to outmoded design or location."

Cooperatives

A cooperative unit is fractional ownership (evidenced by corporate shares) in a company that owns the real property. The unit of corporate ownership entitles a shareholder to exclusively occupy a defined space in the

building, and to jointly use common areas including land, the common-use portions of the building, recreation facilities, and other site improvements. The rights to occupy and use are evidenced by a lease, or an assignment of lease. Just like condominiums, when a cooperative unit occupant proposes improvements, it's the market value of entire building that must be appraised and used in the SI/SD determination, not an individual co-op unit. And again, ACV is the only appropriate method.

Coach house conundrum

This is a real-world example of how regulations don't anticipate every scenario, and how the results of a properly-developed ACV appraisal might seem ridiculous.

About 20 years ago, an excellent quality RV park catering to the owners of Class A motorhomes was developed in a Florida floodplain. RV parks are considered reasonable floodplain development because motorhomes are not structures, and in Florida they tend to disappear from the parks in late Spring before the beginning of hurricane season, and reappear at the end of the season. The RV park in question is a planned community with an engineered drainage system, an elevated clubhouse/storm shelter, security gates, landscaping, and very nice site amenities including concrete aprons and pads, and public utility hookups for water, sewer, electricity, telephone, and TV cable. The park developer provided each site with a 10' x 10' kit-built frame storage shed (asphalt shingle roof, vinyl siding, no interior finish).

Motorhome people are generally very social folk. They like to entertain and most RV sites get furnished with lounge chairs, covered tables, and sometimes fire pits. In this Florida RV park, it wasn't long before someone decided that the regular card game would be better played out of the bugs and weather and remodeled a storage shed, which became the first "coach house." The idea caught on and soon there were upgraded coach houses with metal shingle roofs, stucco siding, ceramic tile floors, painted drywall interiors, lofts to accommodate water heaters, full bathrooms, efficiency kitchens, air conditioning, art glass windows, and ... well, you get the picture. Keeping up with the Jones' applies throughout society. The demand for embellishments was so strong that more than one local contractor specialized in coach house remodeling. Permits weren't pulled for the original developer-provided kit-built sheds, so they weren't shown in tax assessment records, and subsequent work was done without permits.



Ignorance was bliss until Hurricane Irma came along. Some of the coach houses sustained damage. Subsequently, community officials noticed the coach house owners and permits were required, making the repairs were subject to the 50 Percent Rule. Since they weren't assessed, the adjusted tax assessment method wasn't available. Coach houses never sell separate from an RV pad site, so there's no way to make a *whole-property value* appraisal. ACV is the only appraisal method.

What do you suppose it costs, per square foot, to build a structure with all the amenities of a good quality single-family residence and yet the building is only 100 sq. ft. in area? The answer might make your head spin.

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