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## Market Value Dates

This month we'll talk about important dates that apply any time a building is valued to estimate the "market value" for the purpose of making substantial improvement and substantial damage determinations. It's important to understand that appraisers use different terms for those dates.

### Date Terminology

For SI/SD determinations, "market value" is always as of a specific date. The date is either immediately **prior to damage**, or **prior to the start of work on improvements**. Appraisers call this the "appraisal effective date," or sometimes the "date of value." An appraisal effective date must be established whether the appraisal is a "whole property" value estimate (called a "professional appraisal" in FEMA P-758, SI/SD Desk Reference), or an appraisal of Actual Cash Value.

The Uniform Standards of Professional Appraisal Practice (USPAP) requires appraisers to report at least two dates, the "appraisal effective date" and the "report date." Sometimes the date the appraiser inspected the building is reported, called the "inspection date." Knowing the inspection date is important because an inspection date that is out of context with the appraisal effective date requires explanation of what the appraiser did to assure that she knew what the building conditions were on the date of value.

The report date is the date the report is transmitted to the client. The report date establishes which version of the Uniform Standards of Professional Appraisal Practice that applies to the appraisal assignment. USPAP is normally updated on a 2-year cycle. As USPAP changes, I update the Appraisal Checklist I developed to assist local officials in making SI/SD Determinations. Look for the October Insider, when I'll give you a link to download the checklist.

### Retrospective Appraisals

Appraisals made as of a date in the past are identified as "retrospective." Retrospective refers to the appraiser's point of view. A retrospective appraisal is complicated by the fact that the appraiser already knows what occurred after the appraisal effective date. If local officials find themselves evaluating a retrospective appraisal report, make sure the descriptive information about the building, and the

**Appraisal Effective Date or Date of Value** means the date immediately prior to damage or before improvements are started.

**Report Date** is the date the appraisal report is delivered to the client.

**Inspection Date** is the date the appraiser inspects the building.

**Actual Cash Value** means like-kind replacement cost depreciated for age, wear and tear, neglect, and quality of construction.

"Like-kind" is important – it means the appraiser starts by estimating the cost to replace not to current code, but what it would cost to replace it just like it is today, so the end result would look "like" the building today. If replacement cost to current code is used, the result would not meet the requirement that market value be the value of the existing building.

cost or market data on which the analysis is based, is in the same context as the retrospective appraisal effective date. Specifically:

- Cost estimating systems should be set to historically-correct cost data sets.
- If a whole-property market value is estimated, then the comparable sales used should not have been sold later than the appraisal effective date, and the deductions made for land value and other improvements must also be time-appropriate.
- The building age (actual age or effective age) should be calculated as of the appraisal effective date.
- Depreciation, no matter how it is estimated, should reflect the building age and condition as of the appraisal effective date.

The same attention should be given to a retrospective building value derived by using the adjusted tax assessment method. When local officials ask for the under-roof assessment for the building, be sure to ask for the tax assessment value that applied prior to damage or prior to the start of work on improvements.

### **Valuations Prior to Damage (Always Retrospective)**

When the NFIP "market value" is estimated in connection with the repair of damage, no matter what valuation method is used, the date of value is supposed to be immediately prior to the event that caused damage.

Appraisers must establish the date of value, and then do whatever is necessary (and possible) to determine what were the conditions prior to damage. This is accomplished by:

1. Making an in-person inspection to observe the building, particularly the undamaged portions, which gives the appraiser an indication of what the damaged portion was like before the damage occurred.
2. Obtaining images of the building taken prior to damage, from sources possibly including the property owner, tenants, contractors, other appraisers, or multiple listing systems (MLS).
3. Interviewing people who saw the building before or immediately after damage.
4. Reviewing building inspection reports or other reports related to the building.
5. Documenting in the appraisal report the process followed, and the information relied on, to establish the building condition.

Post-damage building inspections are very helpful for interpreting pre-damage images and building reports. Interviews with people familiar with the building, and building inspection reports, usually help fill knowledge gaps.

With the passage of time, an unrepaired building continues to depreciate, often at an accelerated rate, making it difficult to determine what the building was like before damage occurred. In practice, especially after large-scale events that damage many buildings, it can be months or years before storm damage is repaired.

If the pre-damage building condition can't be established with reasonable accuracy, then an appraisal with a "before damage" effective date can't be made without invoking extraordinary assumptions. In general, an appraisal based on extraordinary assumptions is inappropriate for SI/SD determinations. Local officials should not accept such an appraisal because it involves assumptions that might prove untrue (and probably is intended for use in pending litigation). [Rebecca Quinn's Note: my advice for local officials is to talk to the property appraiser about the tax assessed value assigned to the building, the date of that assessment, and whether the assessment already takes unrepaired damage into consideration.]

**Extraordinary assumption** is an assumption regarding uncertain information used in the analysis which, if found to be false, could alter the appraiser's opinions or conclusions.

**Hypothetical condition** is a condition contrary to what is known by the appraiser to exist on the appraisal effective date, but is used for the purpose of analysis [often in litigation].

### **When a Building is Neglected**

When a building is not maintained over time and falls into disrepair, it has been neglected. When damaged buildings are not repaired in a timely manner, then some communities consider the building effectively abandoned, and unrepaired damage is considered neglect.

In those cases, the appraisal effective date is the current date or inspection date. Neglected maintenance and unrepaired damage are treated the same as physical depreciation. [Rebecca Quinn's note: the SI/SD Desk Reference doesn't clearly address this. When buildings have been neglected, market value should be determined as of the date of the community's inspection or the date an application is submitted (if not prompted by inspection).]

### **Valuations Prior to Start of Work on Improvements (Alterations, Renovations, Remodels & Additions)**

When the NFIP "market value" is estimated "before the start of construction of the improvement," no matter what valuation method is used, the appraisal effective date is usually the same as the appraiser's inspection date.

Sometimes an appraiser shows up to inspect a building and discovers it's been gutted, or worse, unpermitted new construction has been performed. When that happens, best appraisal practice is to contact the floodplain administrator, describe the situation, and get advice on how to proceed. Local ordinances and policies govern, and the appraiser should not be responsible for deciding how to proceed.

If the local official agrees to let the appraisal process proceed, then the appraiser must follow steps 1-5 above (under Prior to Damage Valuations) to establish conditions before the start of work.

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