

Case Studies – The flood of 2008

Case 1 – Coralville Restaurant on the strip.

Characteristics:

- 1) In the 100 year flood plain
- 2) Has \$500,000 of flood insurance
- 3) Mortgage of \$600,000
- 4) Occupied by Tenant on long term lease

The 50% issue: If damage to the building was greater than 50% of the pre flood value of the building the buyers will be forced to ameliorate.

How do you value the land? Does the land value decline? Maybe a little but you can't really prove it without sales.

How do you judge the cost to cure? The Stucco question.

If you cant rehab – you have to demolish and thus

You have to comply with set backs which reduces the bldg footprint 30%

You have to comply with current building codes – handi cap access, fire ordinances

New construction has to mitigate for future flooding

Ask again, did the land value change?

The Casualty Loss Issue – Difference between before and after values. Losses offset by depreciation.

What happened to the tenant?

Picture yourself in negotiations when all you speak is Cantonese

Case Study 2 – Downtown Cedar Rapids, Older office/ retail building

Value before Flood is \$600,000

Mortgage is \$300,000

Renovations costs are \$1,000,000

Value after renovations is \$500,000

Value after flood but before repairs \$300,000

In the 500 year flood plain – no insurance

Since it is not in the 100 year flood plain and has no insurance, FEMA is not involved

It doesn't make sense to rehab.

Thus the bank gets the bldg back

How does that affect the credit worthiness of the owner?

The bank pays the extra cost to demolish assuming it is not historic

Resulting land value about \$100,000

Tax loss (property tax) about \$15,000 per year

Assume owner and tenants are human service agencies say substance abuse or domestic violence. Big downstream problems

Case Study 3 – residential cedar rapids

Home value before \$100,000

Home value after \$50,000

Home value renovated \$80,000

Mortgage \$50,000

Cost of repairs \$40,000

In the 500 year flood plain – no insurance

Family has 2 elementary school kids mother works part time

School issues, day care, financial pressures – the grieving process tends to hit bottom one year after the flood – about 8 months left

What do you do?

- 1) Casualty loss \$50,000 x 30% or \$15,000 no depreciation issues
- 2) Meets the 50% test – you can rebuild and afterward get flood insurance but its pretty pricey
- 3) You lose \$50,000 in equity
- 4) You pay \$40,000 in renovations
- 5) Because the value after is \$10,000 less than your costs it really doesn't make financial sense to rehab but you do it anyway to preserve your credit and it stabilizes the family

Case Study 4

In the 100 year flood plain and you have flood insurance but it is tied to match the remaining mortgage balance

Value before \$100,000

Value after \$50,000

Value renovated \$80,000

Buyout \$100,000

Mortgage \$30,000

Looks like 7 or so months and you have access to buy out funds

No issue with 50% rule

No issue with casualty loss

Continuing family and social issues

The formula for a buy out is 110% of pre flood assessed value if the IRS will accept that

Buy out should allow for an appeal process-

- 1) Kitchen rehab/ finish
- 2) Cost versus value issues
- 3) Proving the costs
- 4) Appeal and appraisal delays payment 2 – 3 months
- 5) Potential litigation if appraisers disagree
- 6) Cost to take to trial \$25,000+

Why pay pre flood value? It's the law.