



Office of Cerro Grande Fire Claims

Question and Answers on the Post-Fire Residential Real Property Analysis in Los Alamos; and the Policy on the Decline in Residential Real Property Values (May 31, 2001)

BACKGROUND INFORMATION

Why did the Office of Cerro Grande Fire Claims authorize an economic study of property value losses in Los Alamos?

The Cerro Grande Fire Assistance Regulations say that compensatory damages may be awarded to a claimant for any reduction in the value of real property if:

1. the decline in property value is due to the Cerro Grande Fire,
2. the Claimant owned the property at the time of the Fire,
3. the property was sold in a good faith, arm's length transaction that was entered into after May 3, 2000 and is closed no later than August 28, 2002.

The consulting firm PricewaterhouseCoopers (PwC) was commissioned to conduct an independent economic study to help determine whether any diminution (loss) of value had occurred and, if so, to assess the extent of the diminution.

An earlier version of the PricewaterhouseCoopers study was circulated in February. How does this new version differ from the first?

The February 5, 2001 post-fire residential real estate analysis was the preliminary report. It was presented at a February 7, 2001 town meeting for input from the community. Comments also were received by electronic mail between February 5 - 15, 2001. After considering the many public comments, PricewaterhouseCoopers then reviewed the preliminary study, did more research, and refined the analysis which is reflected in the final report.

How can I read a copy of the Economic Study?

The study is posted on the Federal Emergency Management Agency Web site at www.FEMA.gov/cerrogrande. Copies also are available at the Office of Cerro Grande Fire Claims (OCGFC) service centers.

Is this property value study the last one OCGFC will do in Los Alamos?

Continued analyses of the housing market will be made until the market returns to price levels that would have prevailed without the fire or through the second quarter of 2002, whichever is sooner.

THE FINDINGS

Did the final study show that residential properties in Los Alamos County declined in value due to the Cerro Grande Fire?

Yes, but not all residential properties were affected. Countywide, the average, post-fire sales price for single-family homes declined due to the Cerro Grande Fire between 3 percent and 11 percent. This estimate takes into account the differences in house characteristics such as size, age and location. While

the average change for all single-family houses in Los Alamos County is within this range, specific houses may have experienced higher or lower rates of diminution. In addition, multi-family residences statistically showed no appreciable decline in value as discussed below.

What about residential real estate other than single-family homes?

Except for the Eastern area, PwC found that statistically diminution did not appear to be significant for duplexes, quads, or other non-single-family units. However, the OCGFC will look at each diminution claim on a case-by-case basis. If a claimant can produce evidence of diminution on this type of property, the claim will be considered.

The study refers to “realized losses” and “unrealized losses.” What is the difference between the two?

The regulations specify that claimants may be eligible for compensatory damages for two types of losses associated with the decline in real property values. Realized losses occur if the claimant sells the property prior to August 28, 2002 and incurs a loss relative to the value that would have been obtained had there been no fire. Unrealized losses may be present if the claimant can establish that the value of the real property was permanently diminished as a result of the fire, even though the property was not sold.

CALCULATING LOSSES

How will realized losses be determined by OCGFC?

Diminution claims will be handled on a case-by-base basis. The OCGFC will request and pay for a pre-fire appraisal that complies with the appraisal guidelines established by the OCGFC to determine the value of the property as of May 3, 2000 (pre-Fire value). The OCGFC will use the pre-Fire value and adjust it to determine the value of the property at the time of the sale, had the fire not occurred (this is called the “but-for-Fire value”). The “diminution value” will be determined by subtracting the sales price from the but-for-fire value.

- Pre-fire value (value as of May 3, 2000) multiplied by growth index = but-for-fire value (value at the time of sale had the fire not occurred)
- Sales price subtracted from the but-for-fire value = diminution value

In accordance with the April 2, 2001 *Policy on the Decline in Residential Real Property Values*, the OCGFC will need to determine the amount of diminution from the “diminution value” that was a direct result of the Cerro Grande Fire. The OCGFC will review specific information on the subject property, such as the proximity to the Fire, terms of the sale, etc., to determine the amount of compensation due to a claimant.

How will unrealized losses be figured?

Unrealized loss claims will not be determined until the second quarter of 2002. OCGFC will perform another market analysis in the second quarter of 2002 to determine if residential real estate property values continue to be diminished. If this is the case, OCGFC will allow claimants who think their property has permanently declined in value to file a first time Notice of Loss or reopen their previously filed claims and seek to substantiate a permanent loss. However, a compensation determination can only be made on a case-by-case basis, and no general rule of compensability can be stated here.

The PwC Report only references properties NOT physically damaged. How will the OCGFC handle diminution claims for properties that were physically damaged?

Typically courts do not award damages for both repairs and diminution. This is considered “double recovery.” Therefore, when the OCGFC is determining the amount of compensation due a claimant, it will be necessary to take a look at the amount of compensation that was provided to remedy the property (structures and land) and whether or not it was invested back into the property prior to the sale. If the

compensation to remedy the property WAS reinvested into the property prior to the sale, than the entire amount of diminution will be eligible for compensation. If the compensation to remedy the property WAS NOT reinvested, then it will be necessary for the OCGFC to subtract the compensation from the diminution value.

I have been compensated by the OCGFC to replace my burned out home. I have elected to build my next home elsewhere and plan to sell my burned lot “as is.” Will I be eligible for compensation for a realized loss for the decline in value to my “as is” lot?

In most cases, no. OCGFC provided compensation to claimants to put back what they lost (structure and land). If a claimant sells their property “as is” the OCGFC will subtract all compensation received by a claimant to remedy what was lost on their real property (structure and land). The assumption is that had the claimant reinvested all funds received to replace what was lost, the property would not reflect a decline in value.

However, if funds received are reinvested into the property to restore its condition what it was prior to the fire, and the claimant still realizes a decline in property value, the claimant would be entitled to any residual diminution upon sale within the eligible period.

I sold my undeveloped lot and realized a decline in property value. Can I submit a claim for diminution of value for raw land?

You can submit a claim if you think such a loss has taken place. The claim should include evidence of the loss – including a pre-fire value, a but-for-fire value, and the sales price. We cannot prejudge whether any specific claim will be entitled to receive compensation, since all claims are decided by an authorized official on a case-by-case basis.

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