

Substantial Damage Quick Guide

When structures inside the Special Flood Hazard Area (SFHA) are damaged, National Flood Insurance Program (NFIP) participating communities have a responsibility to assess impacts before repairs can be made, no matter the cause of damage. If the cost to repair is 50% or more of the market value, the structure is considered Substantially Damaged and must be brought into compliance with current local floodplain management standards. Rebuilding to current standards decreases peril to life and property and prevents future disaster suffering.

This Quick Guide is an overview of the considerations for evaluating structures for potential Substantial Damage (SD) or Substantial Improvement (SI) in the SFHA. Community officials are responsible for making SI/SD determinations before structures are repaired or improved as part of administration of local floodplain management regulations.

What is Substantial Damage?

If the repairs needed to bring a structure to its pre-damage condition will equal or exceed 50% of the market value of the structure (not including the value of the land), the structure is considered to be Substantially Damaged. Likewise, if the proposed work to improve a structure will cost 50% or more of the value, the structure is considered to be Substantially Improved and must be brought into compliance with current local floodplain management standards. If the community has adopted a stricter standard, such as 45% of the market value or adding repairs over a certain period of time, the community's standard would apply.

Communities should decide in advance of an event how they will handle significant impacts to structures and develop and document procedures to respond. Consistency is important and makes it easier to defend SD determinations when all applicants are treated the same, especially when many buildings have been damaged.

Graphic





[Open a full-sized version of this graphic.](#)

Costs to Include When Estimating Repairs and Improvements

A variety of factors must be included in the Cost of Repair calculations. Here are some examples:

- Materials and labor cost (including donated or discounted materials and owner- or volunteer-completed labor)
- Structural elements
- Demolition and debris disposal
- Contractor overhead or profit
- Utility and service equipment
- Elevation or floodproofing
- Site preparations
- Costs associated with complying with regulations or code requirements
- Interior and exterior finishes

Determining Market Value

For purposes of making SD determinations, local officials need to determine the market value of the structure. The NFIP regulations do not define “market value,” but generally, market value refers to the price an asset would bring on the open market. The term may be defined by state statutes that pertain to zoning, property taxation or real estate transactions. It is important to note two basic NFIP requirements:

- Market value must always be based on the condition of the structure before the improvement is undertaken or before the damage occurred.
- Only the market value of the structure is pertinent. The value of the land and site improvements (landscaping, driveway, detached accessory structures, etc.) and the value of the use and occupancy (business income) are not included. Any value associated with the location of the property should be attributed to



the land, not the building.

Many communities estimate “market value” using either the assessed value developed for property tax assessment purposes, adjusted to approximate market value, or estimates of a structure’s actual cash value, including depreciation.

Roles in Substantial Damage

Officials in NFIP-participating communities are responsible for regulating all development in SFHAs by issuing permits and enforcing local floodplain requirements, including SD, for the repairs of damaged buildings. After an event, they must:

- Determine where the damage occurred within the community and if the damaged structures are in an SFHA.
- Determine what to use for “market value” and cost to repair **CONSISTENTLY**; uniformly applying regulations will protect against liability and promote equitable administration.
- Determine if repairing plus improving the damaged structure equals or exceeds 50% of the structure’s pre-damage value.
- Require permits for floodplain development.

Following a disaster event, the floodplain manager should act quickly to move forward with the SI/SD process listed in the graphic below. Technical assistance may be available from FEMA and/or the state NFIP office. When there is a Presidentially Declared Disaster, communities may be reimbursed for these activities through FEMA Public Assistance. (For more information please see [DRRA 1206 Resources](#) below.)

State and federal officials do not make NFIP SD determinations. Local officials make these determinations based on their land use authority and locally adopted regulations.

Resources

- [FEMA P-758 Substantial Damage Desk Reference](#)
- [Substantial Damage Estimator Tool](#)



- [FEMA Public Assistance Reimbursement for Eligible Building Code and Floodplain Management Activities](#)
- [Public Assistance Companion Guide for DRRRA 1206](#)



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