

4.5.3 Actual Cash Value

Actual cash value (ACV) is 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 factors. The concept of ACV is used in both the insurance industry and the construction industry. In most situations, ACV is a reasonable approximation of market value.

A number of commercial sources of construction cost information are available to support estimating the replacement cost of a building, including industry-accepted guides available from companies such as RSMeans (<http://www.rsmeans.com>) and the Craftsman Book Company (<http://www.craftsman-book.com>), among others. These sources allow computation of construction costs based on occupancy, square footage, quality, and regional cost variations.

Depreciation accounts for the physical condition of a structure. Depreciation does not take into account functional obsolescence (e.g., outmoded design or construction that pre-dates current codes) or factors that are external to the structure (e.g., reputation of schools or distance to shopping and parks). Commercially available references provide tables and formulas to calculate physical depreciation. These tables and formulas are objective and are used by most professionals in the fields of property appraisal and building inspection. Local officials may consult with a qualified appraiser regarding depreciation, or additional guidance for applying depreciation rates over time is found in FEMA P-784 CD, *Substantial Damage Estimator* (Section 7.5).

4.5.4 Qualified Estimates

A “qualified estimate” of a structure’s market value is an estimate developed by a qualified local official who has sufficient experience and professional judgment on which to base such estimates. The local official may be in the building department or in the tax assessor’s office. The estimates should be made using the best available information, which may include recent permit records, recent home sales, regional cost data, estimates of depreciation based on knowledge of the pre-damage condition of buildings, and adjustments for unique or distinctive features of individual buildings. Another way that a local official may develop qualified estimates is if professional appraisals have been prepared for a few buildings; in that case, those results may be used to approximate the market values of similar buildings. This approach should be used only if the approaches described above cannot be used. Qualified estimates are most likely to be used in the post-disaster situation after large numbers of buildings have been damaged.