nerej
CELEBRATING 55 YEARS

Building in the flood plain: A special kind of sea change

December 13, 2012 - Appraisal & Consulting

Recently, I was consulting on a residential development property in southeastern Mass., on and near the water. Having worked on the coast in the past, I was well aware of the impacts of coastal flooding, related zoning and insurance, but I needed an update. I found that some of the towns in this area had objected to recently proposed, more rigorous NOAA regulations concerning building in the flood plain. But, the towns lost their case, and new regulations were in place.

What I was not prepared for was the magnitude of impact on this property. The new regulations not only raised the overall flood zone (AE zone) elevation from about 14 to 16 feet, but they also increased the lateral inland area of what is called the velocity zone (VE zone), an area of potentially high wave impact. Velocity zone construction typically raises the habitable level of residence yet another two feet, and things like roads, wells, and septic systems were prohibited in the area.

In short, property values had definitely been negatively affected, independent of the well-known economic issues, by a change in the flood plain regulations. If there were any opportunity at all for a potential buyer not to factor this into price, it disappeared with the recent storm Sandy. According to NOAA, Sandy surpassed the 50 year storm level, but fell short of a 100 year storm. Remember that the definition of a 100 year storm is that, on average, a storm of its size would only be encountered once every 100 years. That frequency is becoming harder for buyers to believe, not to mention insurance companies, as they think about the additional recent past activity of hurricanes Irene, Rita, and Isaac, (which hit the same area just seven years to the day after Katrina).

When it comes to building in a flood plain, regulators, insurance companies, and of course buyers will remember and consider the following impacts from Sandy:

* $70 billion dollars in losses and still counting.
* Massive fires, destruction, flooded transportation, 19,000 flights canceled.
* Six million people without electricity for days or weeks on end.
* Loss of tens of thousands of jobs
* Greater than 130 people in the U.S. perished.

Some people attribute the Sandy devastation to a unique "perfect storm." But there is another interesting viewpoint that posits that this perfect storm actually started decades ago, when more and more building started in the flood plains, due to the growing demand for primary, secondary and resort residential in these beautiful beach areas. In other words, the "perfect storm" is not a single event, but an event made possible both by a confluence of weather and man-made growth patterns. How many other areas are stage sets for another "unique" storm?

Many are questioning whether people should be allowed to rebuild at all. Some say yes, if the rebuilding meets flood plain regulations and is supported by adequate insurance. Others say that those who rebuild will push the government to make them whole after a disaster, since insurance will be limited, if available at all. In other words, less stringent regulations encourage risk taking,

which can seem risk free if government is ready to step in, in some kind of bail-out. But that's a different story.

Without taking any positions, it seems clear to me that building in these flood and other disaster prone areas will become more and more difficult in the future. As real property consultants, we cannot under-estimate the impact on value of storms, fires, earthquakes. Given that the 100 year storm event will probably occur, based on past history, more frequently than every hundred years, and that other more random disasters will fill in the gaps, we will be getting a reminder more often than we like.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.