



Homeowner Dwelling Replacement and §2051.5c

CARe offers the following brief discussion on replacement homes and CIC § 2051.5c. Replacing a home elsewhere can be tricky and full understanding requires more than this brief overview.

The successful purchase of a replacement home depends on each homeowner's needs and underwriting, policy and claim fact pattern and requires individual analysis. At a minimum, a homeowner should consider the enumerated factors when opting to buy a replacement home:

1. Do not put the damaged lot on the market until complete resolution of the insurance claim.
2. Designate the new purchase as a "temporary" or "interim" residence.
3. Do not use Coverage A funds to buy an interim residence.
4. Obtain an accurate, detailed scope of loss to support all features—square footage, special elements, quality—of the house you lost to use as comparisons and trade-offs for equivalents in value and features of any replacement house.
5. Hire a qualified appraiser to assess value, quality and features of the replacement property.

From CARe's lengthy experience in disaster recovery, insurers have always determined and attempted to pay on the value of the replacement home by first deducting the land value of the replacement property. Since the 1991 Oakland fire and the 1994 Northridge earthquake, we have seen adjusters manipulate an inflated land value to generate a lower replacement value of the replacement home.

Be aware of the "battle of appraisers" as the adjuster disputes your assessment of the value of the land and improvements. The adjuster almost always produces an appraisal of the land value to be disproportionately high to minimize the value of improvements.

You will need your scope of loss to provide proof of your previous dwelling's features as the adjuster will usually dispute and inflate the value of all elements of the replacement home. Be prepared to "morph" or transfer the costs of features and qualities of your previous dwelling into more square footage of a larger home or different features in a smaller home. Be ready, too, to negotiate to use your settlement funds to add or improve a smaller home to make it more equivalent to your lost dwelling.

Supporting documentation and thoughtful comparisons, feature for feature and value for value, will generally get you better results if you choose to purchase a replacement home.

The process can be extremely complicated. Careful planning is essential every step of the way. However, once accomplished, the purchase of a replacement property can be worth all the headaches of maneuvering through the intricate negotiation phase.