The Value Impact of Fire on Real Estate

What happens in the aftermath

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The occurrence of fire events poses significant challenges to real estate, affecting property valuation, market dynamics and community development. This article examines the impact of fire on real estate markets. The impact reflects two areas in valuation: **1)** cost to cure and **2)** stigma. It further bifurcates the impact on **1)** improved real estate and **2)** vacant lands. Through empirical analysis and case studies the following article will demonstrate how these factors influence buyer perceptions and property values.

Introduction

Fire incidents can lead to extensive damage, not only affecting the physical structure of properties but residual impacts on market forces that have both short-term and long-term impacts. This is evident in recent destructive fire events in Los Angeles including the Palisades and Eaton, which cumulatively destroyed 11,419 homes. Then there was the tragic destruction of Lahaina on Maui that lost 2,200 structures. Finally, rural, ranch and grazing lands in the five largest California wildfires (2018 to 2024) consumed 3,281,308 acres. The dual impact of immediate repair costs and long-term stigma associated with fire-impacted properties, both improved and vacant, requires careful consideration by real estate participants to determine the impact on value.

Cost to Cure

The cost to cure refers to the financial investment necessary to restore a property to its pre-event condition. In the aftermath of a fire, property owners must assess the extent of damage and the required repairs, which may include structural, cosmetic and environmental remediation. This includes:

Assessment of Damage: Detailed inspections by licensed professionals are essential to determine the full extent of fire damage. This includes structural integrity evaluations and assessments for smoke damage. Specialists include insurance assessors, structural engineers, environmental testers, fire investigators, construction contractors and restoration specialists. This assessment is needed to determine impacts that are seen, and unseen, for future consideration in determining cost to cure.

Repair Costs: An analysis of repair costs reveals variances based on property type, location, building materials and local labor rates. According to the National Fire Protection Association (NFPA), the average cost of repairing residential fire damage can range from $20,000 to $100,000, depending on the severity. This includes impacts due to water damage, smoke and structural repair. The hidden costs are relocation, temporary housing and delays of repairs. The 2025 fires losses in Los Angles alone are estimated to total $135 billion to $150 billion. Some losses are covered by private insurance and the California Fair Plan, with estimates that 10% of homeowners are exposed and have no fire insurance.

Insurance and Financing: This includes insurance claims covering repair costs that can often take months to resolve based on coverage. The timely settlement of claims can significantly affect recovery. A report by the Federal Emergency Management Agency (FEMA) emphasized that delays in claim processing could lead to declines in property values, as homeowners faced prolonged uncertainty and financial strain (FEMA, 2019).

Stigma

Stigma is associated with adverse risk perceived by the market. Properties that have had past fire events are perceived to be less safe and therefore exhibit lower demand.

Stigma can be temporary or permanent. Risk falls into three stages[1] which affects a buyer's perceptions and can substantially impact property values long after the physical damage has been repaired. The three stages of risk are:

1. Risk associated with a property prior to the situation being assessed, termed an *Uncertainty Factor*;

2. Risk and uncertainty associated with the cost and effort to repair, including entrepreneurial profit, termed *Project Incentive* and;

3. Risk and uncertainty associated with an ongoing reluctance by the market to purchase a property with a history of detrimental condition, including any reduced marketability or concern of a third-party liability, which is termed *Market Resistance*.

Stigma can be quantified, after repair costs and ongoing repair costs, by the increased risk associated with remediation cost overruns, litigious third-party lawsuits and increased holding costs due to increases in financing costs and insurance.[2] It is also quantified by a Before-After analysis in the market (Sales Comparison) that compares unimpaired sales before the fire event and impaired sales after the fire event, which also reflects any increased marketing time due to buyer resistance. This technique can also be used with rental rates in an income analysis.

Impacts on property values are case-by-case based on geography. Based on past studies by FEMA, a single-family house not physically damaged by the fire, the overall level of diminution was nominal to about 10%. This reflects historical fire events and the likelihood of future events. Further, the U.S. Forest Service completed studies that showed that house prices dropped approximately 9.71% after one wildfire.

In the same U.S. Forest Service study, after two fire events house prices dropped an additional 22.68%. However, after a second fire event with no additional wildfires, the vegetation regenerates and people underestimate risk of fire and eventually homeowners perceived risk is nominal and home prices begin to stabilize and increase pending market forces. Of note, most studies and experience with fire events show that the impact is nearly exclusive to improvements and does not impact land. In cases where vacant land is burned of vegetation, it was found that regeneration of native plants occurs with a season, and there is typically no stigma.

Conclusion

The impact of fire on real estate extends beyond immediate physical damage, with lasting implications for property values as reflected in the cost to cure, and short-term and long term risks (stigma). These factors can be quantified through assessment and repair, and recognized valuation methodologies using cost, sales comparison and income approach analyses. Fire events will continue if nature and development try to coexist. Understanding the various issues and factors can assist homeowners, investors, consultants and policymakers to provide effective results for mitigation and prevention. ✪

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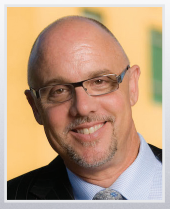
[1] Real Estate Damages – An Analysis of Detrimental Conditions – 2nd Edition. Randall Bell, MAI

[2] As of September 2024, 450,000 households are in California Fair Plan when private insurance canceled policies due to high hazard risk areas.



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