

# Insurance Valuations

Buildings & Site Improvements

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# Basis of Insurance Valuation

- Reinstatement with New Value
- Indemnity Value

# Reinstatement with New Value

- Reinstatement with New Value allows for replacement by similar property, in a condition equal to but not better, nor more extensive, than its condition when new.

# Current Insured Values

Most clients are already insured but the method behind their insured amounts is typically flawed

- Asked their broker
- Indexed an already known value
- Asset register
- Online calculators
- Based on purchase price, i.e. sale price less land
- Asked a builder

# Clients should get independent advice

- Builder
- Quantity surveyor
- Engineer
- Valuer

# How to arrive at Reinstatement with New Value

- Cost per square metre
- Elemental cost

# Elemental Cost

In simple terms, elemental cost breaks the building down to its constituent components, which are individually costed to arrive at a total reinstatement value.

# Typical Elements

- External

- Floors
- Walls
- Roof

- Internal

- Floors
- Walls
- Ceilings
- Division walls

# Typical Elements

## ● Services

- Electrical
- Plumbing/sanitary
- Fire services
- Air conditioning/heating
- Lifts
- Stairs

## ● Other components

- Internal structures
- Cool rooms
- Offices

# Typical Elements

- External components
  - Lighting
  - Signage
  - Canopies
  - Fire escape stairs
  - Rooftop walkways

# Typical Elements

- Non-structural components
  - Contingencies
  - Preliminaries
  - Professional fees – architect, surveyor, engineers, etc.

# Site Improvements

- Paving
- Fencing
- Landscaping
- Infrastructure reticulation
  - Water, sewerage, etc.

# Extra Cost of Reinstatement

Policies for buildings and site improvements typically extend to include the extra cost of reinstatement of damaged property to comply with the requirements of buildings regulations in place at the time the loss occurs.

This does not include allowances for planning changes, loss of plot ratio, etc.

# Removal of Debris

- Not a generic percentage
- Should be calculated with reference to:
  - Building size / number of storeys
  - Building materials
  - Location
  - Site access
  - Contaminant materials – asbestos, etc.

# Limit of Liability

- The amount representing the maximum liability of the insurer for any one loss or series of losses arising out of the one event.
- The Limit of Liability is the worst case scenario, i.e. the total loss arising from a claim. It does not include consequential losses, i.e. those losses which arise as a result of the claim such as:
  - Business interruption
  - Loss of rent received
  - Cost of alternative accommodation

# Limit of Liability

- Limit of Liability includes allowances for:
  - Total cost of reinstatement
  - Policy year
  - Lead time
  - Rebuilding period – S-curve
  - Removal of debris

# Where to obtain cost data

- Reputable cost guides
  - Rawlinsons
  - Cordells
  - Riders Digest
  - Building Economist
- Actual project costs
- Prepared cost manual
- Engineers/architects and other building professionals
- Internet

# Co-insurance

- Co-insurance clauses provide that, if at the time of the loss the value of the property insured exceeds the amount of cover, the insured is considered to be self-insuring for the difference in value, and therefore bears a rateable proportion of any loss (including a partial loss).
- This process of sharing a rateable portion of the loss is also referred to as averaging.



# Indemnity Value

- The cost necessary to replace, repair and/or rebuild the asset insured to a condition and extent substantially equal to, but not better or more extensive than, its condition and extent at the time that the damage occurred, taking into consideration the age, condition and remaining useful life of the asset.
- This is typically the amount of money required to replace the insured in the same financial position after a loss as that which they occupied immediately before the loss occurred. This does not mean the insured will receive “new for old”. It is based on the physical life of an asset.

# Indemnity Value

- Typically used where the insured does not intend to reinstate
- Approaches to value include:
  - Market comparison
  - Depreciated replacement cost
  - DRC includes consideration of age, condition and remaining physical life
  - Typically straight line depreciation



# Heritage Assets

- The risks from partial loss are heightened, given heritage legislation may require making good of damaged areas and this may require repairing and reproducing every component of the building in a style and form of construction that most closely resembles the remaining original structure.
- This may result in considerably increased costs.

# Disclaimers

- Words to the effect that as valuers we are not quantity surveyors and our estimate should be relied upon as a guide only.
- Brokers and insurance companies do not like this, they want certainty.

# General

- GST
- Regional catastrophe
- Interest charges
- Insurance policies
- Ask questions

# Disclaimer

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Thank you

