

Commercial Building Valuation

Insurance forms and endorsements vary based on insurance company; changes in edition dates; regulations; court decisions; and state jurisdiction.

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Disclaimer



Disclaimer # 2

You may not like everything I have to say

You may disagree with what I have to say and/or how I say it

These are things I BELIEVE – you are welcome to join me or not



What We Will NOT Do and WILL Do Today

WE WILL NOT

Provide you with a 100% accurate manner of evaluation when it comes to replacement cost of property & similar related issues

WE WILL

Provide you with multiple sources, guidelines and resources to assist you so that you can assist your customers in determining – at least to some degree of certainty – a reasonable building valuation



Defined – Replacement Cost



Replacement cost coverage is a property insurance term that refers to one of the two primary valuation methods for establishing the value of insured property for purposes of determining the amount the insurer will pay in the event of loss.

- www.irmi.com

100% replacement cost means that you have the correct amount of insurance to rebuild the Association to the way it was before you had a loss.

- www.rogersgray.com

Defined – Replacement Cost

Replacement cost is a term referring to the amount of money a business must currently spend to replace an essential asset like a real estate property, an investment security, a lien, or another item, with one of the same or higher value. Sometimes referred to as a "replacement value," a replacement cost may fluctuate, depending on factors such as the market value of components used to reconstruct or repurchase the asset and the expenses involved in preparing assets for use.

- www.Investopedia.com

Defined – Replacement Cost



CP 00 10

3. Replacement Cost

a. Replacement Cost (without deduction for depreciation) replaces Actual Cash Value in the Valuation Loss Condition of this Coverage Form.

e. We will not pay more for loss or damage on a replacement cost basis than the least of **(1)**, **(2)** or **(3)**, subject to f. below:

(1) The Limit of Insurance applicable to the lost or damaged property;

(2) The cost to replace the lost or damaged property with other property:

(a) Of comparable material and quality; and

(b) Used for the same purpose; or

(3) The amount actually spent that is necessary to repair or replace the lost or damaged property.

What Is Reproduction Cost

Reproduction cost refers to the cost to duplicate an item exactly by using materials, artistry, and other expertise comparable to those used in the original.

- www.irmi.com

Reproduction cost is the cost of reproducing an asset or property with the same materials and specifications. It is a relevant factor in determining the present value of a public utility plant for rate-making purposes.

- www.uslegal.com



What Is Market Value

Market value is the price that would have to be paid to purchase an asset in its particular market.

- www.irmi.com

The amount for which something can be sold on a given market

- Oxfordlanguages.com

Market value (also known as OMV, or "open market valuation") is the price an asset would fetch in the marketplace, or the value that the investment community gives to a particular equity or business

- Investopedia.com



What Does The Insured Think When They Have A Loss

What do they expect is covered when they have a loss

How can you manage their expectations

Before the loss

After the loss



The Agent/Brokers Place In Replacement Cost Calculations

An Agent's/Broker's Responsibility

Provide information to the customer

Provide guidance to the customer

Provide ideas as developed by the insurer's preferred calculation methodology

NOT to select the limit



Agent/Broker Resources

Carrier's preferred calculation method

Local contractors

CoreLogic

Building estimates from other reliable sources

- Purchase appraisal
- Comparative values of comparable properties
- International Code Council Building Valuation Data (handout)

Professional estimators

First Street Foundation – riskfactor.com



Example – CoreLogic (2019)

CoreLogic research has shown that reconstruction cost values average close to 12 percent more than new construction costs.

This is because newly constructed communities can benefit from material discounts and labor efficiencies that a contractor rebuilding a home does not have.

Restricted site access

Restricted utility access

Site improvements

Permits/fees

Working restrictions

Delivery access

Security concerns

Work interruptions



First Street Foundation

www.riskfactor.com

An Example – does someone want to volunteer ?



The Customer's Responsibility

Due diligence in educating themselves

Select an appropriate limit after considering all inputs

After all – it is THEIR property

All of this requires collaboration and sharing of information between all parties involved



Let's Just Consider Some Variations In Building Costs

Variations

Building Size

Location

Design of the Building

Construction

Time of year

Length of time
required

Occupancy

Capital Cost
Components

- Site costs – Hard costs – Soft costs





Don't Go To Sleep On “Law or Ordinance” Issues

Be aware of how often building ordinances, laws, requirements may change both in your primary state of operation as well as where your insured's property is located

Resources for Ordinance & Law changes and updates

Up.codes

Ibhs.org



UP.CODES (a sample of)

Building code 2018

Residential code 2018

Storm shelter code 2014

Accessibility code 2009

Electrical code 2017

Fire sprinkler code 2016

Life safety code

Structural concrete

IBHS.org

Go to ibhs.org – click on public policy – connect to “building codes”

A US map comes up – click on the appropriate state of interest

Nebraska

2018 – International Building Code (IBC)

2018 – International Residential Code (IRC)

State Electrical Act – Based on 2017 NEC – Electrical

Nebraska has designated these codes for local adoption. Local jurisdiction may adopt a building code.

Consider – WHEN The Loss Occurs

What does your insured think or expect

What is the reality of their rebuilding

What do YOU think

What does the INSURER think

Agents & Brokers, a Question

Are ALL of your carriers created equal ?

If not, might you be in a position of needing to recommend an inferior insurer when compared to others

HOW do you do that ?



Consider – WHEN The Loss Occurs

Did your insured plan to have this loss

Short answer NO

But, shouldn't they buy insurance today as though they are going to need it tomorrow

If they did so...what do you think their decision would be



SO, Isn't That Really Our Job As Agents/Brokers

Put our insured in the mindset of “the loss has just happened”

WHAT NOW ???

Depending on the type of loss – access may be limited

How long will it take to clear the site of debris – enough coverage ?

Who will they choose to repair/rebuild their property

Are they available - Do they want the job – How long will it take

What about permits - What time of year did the loss occur

From the date of loss to the date of occupancy...how long ?

Can the contractor perform the work for the amount provided by the insurance



The PROMISE of Insurance

To put the insured back into the position they were in immediately before the loss occurred

Are you ready to do that

Is your insurer ready to do that

Does your insured recognize all of the foregoing

