

Valuations for insurance purposes

Statistics show that 83% of commercial properties are underinsured. This is generally due to a number of reasons:

- The property is insured for indemnity value instead of replacement value
- The sum insured amount is not reviewed on a regular basis
- Natural disaster cover is not available or is cost prohibitive
- A market valuation is used to determine the value instead of an insurance valuation

In order to insure a commercial property correctly, it is important that customers obtain a Registered Insurance Valuation. This will also help insurers understand the value of the property and the risk to be insured.

Why are insurance valuations required?

- Reassurance the sum insured on your policy schedule is as accurate as possible. This will mean in the event of a total loss, you should have sufficient funds to rebuild the property
- Providing a starting point for an accurate sum insured which can be updated each year in line with inflation
- Estimating the rebuild costs for unusual features of the property e.g. fences, bridges...
- Obtaining an accurate indemnity value for fire service levy charges

Market valuations versus insurance valuations

So what is the difference between a market valuation and an insurance valuation?

Market valuations provide an indication on the amount a property might be expected to realise when offered for sale. It is based on what is happening in the current property market and includes the sales price of similar properties. A market valuation is not suitable for estimating the cost to rebuild a commercial property, as these are not based on rebuild costs, and will also include the value of the land.

Insurance valuations estimate the cost of reinstating the property with a new modern equivalent for insurance purposes. The factors considered in establishing the replacement or reinstatement cost will typically include:

- Specific materials used in the building
- Location factors (remote or rural sites versus metropolitan)
- Design of building including soil type, special footing...
- Demolition costs and removal of debris
- Fees associated with reconstruction, architects, survey and engineering
- Inflationary provisions

The cost to reinstate assumes an individual event and does not reflect a wide spread or national disaster impacting on the cost or availability of materials and labour.

How often are valuations required?

It is recommended that insurance valuations are completed every two years to ensure the current costs of building are taken into account. Between valuations, brokers will generally adjust the sum insured each time the policy renews, to reflect the inflationary increases in building costs.

Insurance valuation example:

Upgrade Requirements:	N/A
Use/Occupation:	Retail / Office / Carparking
Age:	Built circa 1970
Land Contour:	Slopping, excavated and retained
Subsoil Type:	Firm natural ground
Other Known Characteristics: Zoned Central Area. We have been advised by the Wellington City Council that the building is not listed as an earthquake prone building.	
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1.0 REINSTATEMENT	
A. Reinstatement Estimate	\$18,711,000
Note (i) As far as we are aware the building may be replaced including similar materials and services as existing, using modern day equivalents. We are not aware of any non-compliance arising from requirements of the Building Act 2004 however we have not sighted a building report.	
Note (ii) By what amounts do the considerations referred to in Note (i) increase the Reinstatement Cost?	\$Nil
Note (iii) Are there any regulations preventing reinstatement wholly or in part? If so give brief details: Subject at all times to compliance with local body building bylaws and resource management controls.	
B. Inflationary Provision	\$1,309,000
2.0 INDEMNIFICATION	
A. Market Related Value	Not Requested
B. Depreciated Replacement Cost Estimate	\$7,204,000
C. Inflationary Provision (for the higher of "A" or "B" above during a 12 month insurance period if appropriate)	\$Nil
3.0 FUNCTIONAL REPLACEMENT (Refer to the attached report/letter for the specification of the functional design)	
A. Functional Replacement Cost Estimate	Not Requested
B. Inflationary Provision	Not Requested
4.0 DEMOLITION ESTIMATE	\$1,508,000

To calculate the **Replacement Value** add the reinstatement and demolition costs together. In this case it is \$21,528,000

To ensure your customer's commercial properties are well protected, talk to your Crombie Lockwood broker about Commercial Property insurance and insurance valuations.