

RESIDENTIAL

**REBUILDING COSTS
FOR THE
INSURANCE
INDUSTRY**

DENIS H CAMILLERI

VALUER DHI PERITI - dhc@dhiperiti.com

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PROPER BASIS OF INSURANCE

INDEMNITY – Cost of repairs less a negotiated allowance for depreciation or betterment

REINSTATEMENT BASIS SETTLEMENT - is based on the cost of carrying out repairs or reconstruction to a condition equal to (but not better than) the condition of the property when new. Thus no allowance is demanded for wear and tear though there may still be an adjustment for betterment if the new building is better than the old one when new.

COST OF REINSTATEMENT ON THE BASIS OF REINSTATMENT IN MODERN FORM - 1

If there are no constraints over the nature of the rebuilding, then an assessment based on the cost of reinstatement in modern form is possible and might be reasonable in those cases, such as farm buildings or single storey warehouses where a fire will probably result in a total burn out.

However, it is far more common for partial reinstatement to be necessary and this will almost certainly have to be carried out in the existing style and materials. An example is the building insured which was built as a house of character.

COST OF REINSTATEMENT ON THE BASIS OF REINSTATEMENT IN MODERN FORM - 2

The cost of matching repairs so as to restore the building to a proper standard both structurally and aesthetically will be substantially greater than “plain equivalent” repair.

Where reinstatement of partial damage in modern form would be acceptable and the sum insured is fixed on that basis it is essential this is with the consent of the insurer, otherwise any claim for partial damage could also be reduced by average

SHOULD AN ALLOWANCE BE MADE IN THE SUM INSURED FOR VAT?

The principle is that VAT will not form part of an insurance claim, where recovery of the tax can be made by reason of the insured's tax status. Where, however, VAT is not so recoverable then the tax will form part of an insurance claim.

The above principle mostly applies in the commercial sector. In the majority of cases VAT is to be added on residential run statement estimates.

KTP VALUATION STANDARDS 2012

APPENDIX C – RE-BUILDING INSURANCE ASSESSMENT SUMMARY

CLIENT:

PROPERTY ADDRESS:

BUILDING CATEGORY:

DATE:

1. Area		m ²	
2. Basic Unit Cost	€		per m ²
3. Adjustment to Basic Cost (list e.g. site work, demolition, outbuildings, garden works, common areas)			
4. Adjusted Rate/Cost	€		per m ²
5. Total Reinstatement Cost (1 X 4)	€		
6. Fees	€		
7. Allowance for VAT – on fees% - on building costs.....%	€		
8. Recommended Sum Insured at Today's Date (5 + 6 + 7)	€		
9. Allowances for inflation, if applicable (from valuation date above) (a) Allowances for increasing costs during period of insurance at% per annum (b) Allowances for increasing costs during period of planning and design reinstatement atmonths at% per month (c) Allowances for 50% of increasing costs during the rebuilding period atmonths at% per month TOTAL ALLOWANCE FOR INFLATION	€		
10. Recommended sum insured including allowances for inflation (8 + 9)	€		

ASSESSMENT OF THE SUM INSURED

With few exceptions, the final assessment figure will comprise the total cost of completely rebuilding the property to be insured, together with allowances in respect of other matters, including:

- (a) Inflation**
- (b) Demolition and debris removal**
- (c) Compliance with current regulations and bye-laws, etc.**
- (d) Professional fees**
- (e) Value Added Tax**

THE CALCULATION OF THE REINSTATEMENT COST

The generally accepted method currently in use is to apply unit cost rates to the superficial area of a building, subsequently adjusting to suit the particular circumstances of the property and the insured.

Alternative methods, where unit cost rates are inappropriate, include the preparation and pricing of full, approximate or elemental bill of quantities.

FLOOR AREAS

The Gross External Floor Areas are adopted. This conforms with MEPA's planning request. The gross area includes for ½ the thickness for facade & back walls.

A proportion of the common areas is to be taken, according to ownership.

Lettable floor areas must not be used for building reinstatement cost purposes

INDEXED NEW REPLACEMENT COST

- This adjusts the new replacement cost by recognised construction indices. This approach limits the risk of underinsurance caused by incurring construction prices.
- In the absence of construction indices, reference is made to the Inflation Index and increased by 0.75%
- Over 20 years Inflation Index (Malta) increased by 2.67% p.a. Over 10 years Inflation Index (Malta) increased by 2.33% p.a.

TYPICAL TOWER ROAD APARTMENT REINSTATEMENT COST BUILD-UP

Taking into consideration the good quality of finishings to habitable areas

No.	DESCRIPTION	UNIT	QTY	RATE €	€
1	Demolition	cu m	424.23	12.50	5,302.83
2	Upper habitable floors construction plus finishes *	sqm	120.00	450.00	54,000.00
3	Outside areas including roof	sqm	12.00	300.00	3,600.00
4	Common area	sqm	10.53	425.00	4,475.78
5	Lift instalation	lsum	0.06	35,000.00	2,187.50
6	Professional fees to above @ 6%				3,456.00
7	18% VAT on above items				12,189.47
					85,211.58
8	Planning authority Fee	sqm	120.00	5.66	679.20
					85,890.78
	Re-building costs at today's date				
9	Allowance for inflation - assumed at 3.5% p.a.				
a	During period of insurance @ 3.5%				3,006.18
b	Increasing costs during period of design & planning approval taken at 6 months				1,503.09
c	Allowance for 50% of increasing costs during rebuilding period @ 18 months				2,254.63
					92,654.68

Recommended sum insured, including allowances for inflation

€93,000.00

* 450euro/sqm = 225euro/sqm (shell construction) + 225euro/sqm (finishing works)

An escalator clause should be in Reinstatement Policy, whereby

annually the above amount is increased by 3.5% or the relevant inflation figure for that period.

Rebuilding at: Market value 23.5%

TYPICAL SWIEQI GROUND FLOOR APARTMENT

Taking into consideration the fairly good quality of finishings to habitable areas of this grd flr apartment.

No.	DESCRIPTION	UNIT	QTY	RATE €	€
1	Demolition	cu m	277.50	7.50	2,081.25
2	Construction plus finishes inclusive of communal*	sqm	110.00	350.00	38,499.56
3	Landscaping to front garden works	sqm	45.00	85.00	3,825.00
4	Fitted units	lsum			2,750.00
5	Professional fees to above @ 6%				2,539.47
6	18% VAT on above items				8,570.53
7	Planning authority Fee		105	1.36	142.80
	Re-building costs at today's date				58,408.61
8	Allowance for inflation - assumed at 3.5% p.a.				
a	During period of insurance @ 3.5%				2,044.30
b	Increasing costs during period of design & planning approval taken at 6 months				1,022.15
c	Allowance for 50% of increasing costs during rebuilding period @ 18 months				1,533.23
					63,008.29

Recommended sum insured, including allowances for inflation

€63,000.00

* 350euro/sqm = 225euro/sqm (shell construction) + 225euro/sqm (finishing works)

An escalator clause should be in Reinstatement Policy, whereby

annually the above amount is increased by 3.5% or the relevant inflation figure for that period.

Rebuilding Cost: Market value 52.5%

RULE OF THUMB PRELIMINARY REBUILDING COST ESTIMATE

1/ Rates vary from a basic €450/m² up to over a €1,000/m², depending on finish & surroundings, the average rate hovers around €575/m².

2/ For the typical average residence in an affordable location assume 52.5% of market value

3/ For up-market locations such as Portomaso in the 25% range of market value