




REINSTATEMENT COST ASSESSMENTS
Michael R Lee BSc (Hons) MRICS

Regulated by RICS




REINSTATEMENT COST ASSESSMENTS



What we will be covering

- 1 Introduction to reinstatement cost assessments
- 2 Taking instructions and preparation for inspection
- 3 Collection of information and site inspection
- 4 Basis of assessment
- 5 Guidance and examples of good practice

Regulated by RICS





1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS

Regulated by RICS



1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS



- Residential RCAs – commercial elements due to the potential mixed use on estates
- Why are they required?
 - Ensure buildings/estate are adequately insured in the event of a claim
 - Avoids over insurance e.g. based on capital value
 - Avoids distortion through index linking
 - Comply with the lease and best practice
- RICS Residential Management Code
 - valuations for insurance purposes should be considered on a regular basis and instructed conveniently before renewals
 - valuations must be carried out by qualified valuers with appropriate skill and experience in the type of properties being assessed, with their fees normally being regarded as a service charge item where allowed

Registered by RICS



1.1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS



RICS Guidance Note

- Reinstatement cost assessments of buildings
- NEW 3rd edition (Guidance Note – Effective from 1st June 2018)
- Seeks to:
 - Changes to 2nd Edition not substantial
 - Re-arranged content
 - New note about method of measurement – states GIFA should be applied
 - Bring element of uniformity into the approach to assessments
 - Improve consistency and reduce level of confusion
 - Demonstrate the level of professionalism which should be shown by chartered surveyors in carrying out instructions

Registered by RICS



1.1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS (CONTINUED)



NOT covered by RICS Red Book

- RICS considered its inclusion in 3rd Edition
- Specifically excluded from Red Book
- No requirement in market place for RCA's to be carried out by chartered surveyors

Registered by RICS



1.2 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS



Association of Residential Managing Agents (ARMA) Standards

- Ensuring that the appropriate cover is in place and that it meets the requirements set out in the lease – ARMA Standard 4.5(a)
- At renewal, should ensure the extent of cover, sum insured and the level of premiums are reviewed – ARMA Standard 4.5(c) and RICS Residential Management Code 15.13

Regulated by RICS



1.3 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS



- We provide the 'Declared Value (DV)'
 - Required by insurer/broker to assess the insurance premium
- They gear this up to a 'Sum Insured'
 - Usually +15-20% (up to 30%) for cost inflation over the period of a total claim/reinstatement
 - The premium is based on the Declared Value

Regulated by RICS



1.3 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS (CONTINUED)



- Define Declared Value
 - The cost of rebuilding and associated on costs on the basis of a total loss (i.e. demolition and rebuilding)
 - Level of cost at the commencement of the insurance period without any provision for inflation
 - This is also known as a 'Day One reinstatement' figure
 - Equivalent of a fixed price, lump sum, competitive tender submitted by a suitable and competent contractor for works to commence on site on the first day of the period of insurance
 - Includes demolition and other costs and all associated professional and other statutory fees (with VAT on fees only)

Regulated by RICS



1.4 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS



- Frequency of re-valuation?
 - Guidance Note Para 3.6
 - "...every three years or whenever any extensions or significant alterations"
 - Best Practice considered to be:
 - Full revaluation every 10 years with
 - Desktop re-assessment (assuming no change in property) every three years
 - Use BCIS or where outside model GN procedure ie elemental
 - 3rd Edition states: Desktop assessments fall outside of GN
 - Insurers may not accept desktops as basis on assessment
- 'Condition of Average'
 - Where DV deemed under assessed
 - Claim reduced by same ratio i.e. insured DV:correct DV
 - Potential claim against valuer

Regulated by RICS



1.4 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS (CONTINUED)



- 'Condition of Average Waiver'
 - The insurer may offer to include a waiver where the DV provided by Chartered Surveyor
 - Not automatically included in insurance terms – has to be requested
 - No duty of care owed to insurer by valuer
 - Valuer will not know of waiver applies – can be lost on renewal to another insurer

Regulated by RICS





2 TAKING INSTRUCTIONS AND PREPARATION FOR INSPECTION

Regulated by RICS



2 TAKING INSTRUCTIONS AND PREPARATION FOR INSPECTION



- Instructions
 - Confirm purpose is RCA only
 - Establish extent of property being assessed – obtain copy of existing insurance schedule
 - Written instructions – define what is being included in assessment
 - Confirm renewal date/assessment date
 - Confirm whether 'as built' plans are available
 - If 'desk top' based on information provide by others – include limitations in instruction letter

Registered by RICS



2 TAKING INSTRUCTIONS AND PREPARATION FOR INSPECTION (CONTINUED)



- Preparing for inspection
 - Check location for any unusual characteristics e.g. tube/rail tunnels, river walls
 - Download Ordnance Survey plan
 - If plans not available – check leases – can be obtained from Land Registry website
 - Check agents floor plans on internet
 - Check whether listed or conservation area – may impact on cost or rebuilding timescales
 - Google Earth

Registered by RICS



3 COLLECTION OF INFORMATION AND SITE INSPECTION



Registered by RICS



3 COLLECTION OF INFORMATION AND SITE INSPECTION



- Collection of information
 - Initial general inspection – check that accords with instructions
 - Assess age of building
 - Restrictions on demolition – e.g. restricted hours, special protection, party walls, congestion zones?
 - Increased cost of demolition e.g. asbestos?

Registered by RICS



3 COLLECTION OF INFORMATION AND SITE INSPECTION (CONTUNUED)



- Site inspection – takes notes, sketches, photos etc
 - Layout of building
 - Measurements to calculate GEFA (Residential)/GIFA Commercial
 - Accommodation and use
 - Summary of construction, eaves and ceiling heights and finishes
 - Services e.g. lifts, fire, air con
 - External areas – topography, landscaping, boundaries, outbuildings
 - Any specialist features/finishes

Registered by RICS



4 BASIS OF ASSESSMENT



Registered by RICS



4 BASIS OF ASSESSMENT



Gross Internal/External Area x suitable reconstruction rate

Calculation of floor areas

- Gross Internal Area (GIFA) or Gross External Area (GEFA)
- RICS Guidance Note states GIFA
- BCIS Online based on GEFA
- IPMS Standards: Commercial GIFA/Residential GEFA
- International Property Measurement Standards: Residential GEFA/Commercial GIFA
- Calculate areas external open terraces
- Calculate areas for differing uses



Registered by RICS



Horizontal lines for notes

4.1 BASIS OF ASSESSMENT



Calculation of Suitable Rate

Simple buildings up to five storey – BCIS Online

- Only allows for low to medium rise up to four storeys
- For high rise it does provide low, mean and high rates but no breakdown
- Automatic calculator includes demolition and fees. Average rates do not.
- Make suitable adjustments for differences between model and subject:
 - Accommodation type** – purpose built/period/mixed use/no of units/bathrooms/special features
 - Foundations** – sloping site/near water courses? Special foundations required?
 - External walls** – rendered/facing brick/stone detailing/window surrounds?
 - Roof** – flat or pitched, pre-fabricated or custom, converted into accommodation?
 - Upper floors** – timber or concrete?
 - Stairs**
 - Chimneys?** – additional allowance required?

Registered by RICS



Horizontal lines for notes

4.1 BASIS OF ASSESSMENT (CONTINUED)



- Type of windows and doors** – upvc/timber or aluminium
- Cladding** – beware of Aluminium Composite Material – advise client of suspected for further testing
- Internal partitions** – in blockwork or studs?
- Internal doors** – basic or hardwood?
- Floor, wall and ceiling finishes**
- Quality of kitchens and bathroom fittings, etc.** – Can be a large adjustment for high value flats
- Gas or electric heating**
- Ceiling heights**
- Electrical installations**
- Demolition** – terraced property? – party wall considerations
- Professional fees @ 13.2%** – potentially more if additional requirements – listed building? conservation area consents required? etc.

Registered by RICS



Horizontal lines for notes

4.2 BASIS OF ASSESSMENT



• **Complex, larger or high rise**

- Prepare an Elemental Cost Assessment – calculates rate for each component
- Applicable elemental rates – see Spon's Architects' and Builders Price Book
- Do not just apply a rate straight from Spon's!
- 17 Commercial property cost models e.g. industrial, offices, out of town retail, health care
- Only two residential models – affordable housing (2-3 bed houses), Private Rented Sector (inc gym, cinema and 2 retail units)
- Chose appropriate shell and core base and make adjustments
- Chose appropriate fit out and make adjustments
- Adjust for location and date (from Spon's assessment date)
- Allow for demolition
- Add prelims and contingency
- Stand back and consider final rate and compare with BCIS average rates data
- Compare with previous valuations and any comparable's available

Registered by RICS



4.3 BASIS OF ASSESSMENT



• **Elemental Cost Assessment**

Element	Description	Rate	Area GIA	Cost	Notes	
1	Substructure					
	Substructure	Unknown - presumed piled given age and size of building	210	2955	599,550	
2	Superstructure					
2.1	Frame	Cast in-situ reinforced concrete frame	135	2955	398,425	Increase demolition rate as concrete framed
2.2	Upper floor	Cast in-situ concrete on permanent metal substructure	40	2955	120,475	
2.3	Roof	Flat roof with an asphalt covering. The roof over the 6th floor also has a single layer of felt applied (assumed as a minimal measure for water ingress). The other flat roof balconies are asphalt covered.	100	2955	295,500	Tall buildings so reduce roof rate relative to floor area
2.4	Stairs	Precast reinforced concrete. There are two sets of stairs in the central core. One serves all floors and the other serves the basement to the 6th floor. There is a further metal spiral staircase between the 5th and 6th floors.	35	2955	99,825	
2.5	External walls	Reinforced party walls with adjoining properties and cast in-situ reinforced concrete walls	160	2955	472,800	

Registered by RICS



4.3 BASIS OF ASSESSMENT (CONTINUED)



2.6	Windows and external doors	Double-glazed aluminium windows and external doors, timber fire exit and plant and machinery doors. This concerns the goods doors and the roller shutter door to the basement garage.	100	2955	295,500	
2.7	Internal walls and partitions	Demountable partitioning on most floors (except 6th and 6th floors that are open plan). Steel part fitting to the core areas to divide space into WCs and kitchenette.	35	2955	99,825	Advice client that certain demountable partitions are included in our assessment
2.8	Internal doors	All internal doors are flush painted timber doors. Some have Georgian knot cedar panels.	20	2955	57,100	

Registered by RICS



4.3 BASIS OF ASSESSMENT (CONTINUED)



Element	Description	Rate	Area GIA	Cost	Notes
3	Internal finishes				
3.1	Wall finishes	40	2055	82,200	
3.2	Floor finishes	110	2055	224,050	1st and 2nd floor to office areas
3.3	Ceiling finishes	35	2055	71,925	
4	Fittings and furniture				
4	Fittings and furniture	30	2055	61,650	
5	Services				
5.1	Sanitary installation	30	2055	61,650	

Regulated by RICS



4.3 BASIS OF ASSESSMENT (CONTINUED)



5.2	Services installation	31	2055	63,705	
5.3	External finishes	15	2055	30,825	
5.4	Water installation	20	2055	41,100	Included in SF
5.5	Heat source	0	2055	0	
5.6	Space heating	270	2055	554,850	Included in SF
5.7	Ventilation	0	2055	0	Includes core electric heating
5.8	Electrical installation	100	2055	205,500	
5.9	Fire installation	0	2055	0	Included in SF
5.10	Lift and escalators	45	2055	92,475	
5.11	Protective installation	15	2055	30,825	
5.12	Communication installation	15	2055	30,825	
5.13	Telephony installation	0	2055	0	
5.14	IT network services	0	2055	0	

Regulated by RICS



4.3 BASIS OF ASSESSMENT (CONTINUED)



Element	Description	Rate	Area GIA	Cost	Notes
6	Subtotal of allowances			4,899,375	
7	Work to existing building	0	0	0	
8	Contractors preliminaries	0	0	0	
9	Contractors overheads and profit	0	0	0	
10	Risk (Owner's contribution)	0	0	0	
11	Total contract sum			5,458,953	
	Rate			2,611	
	Rate rounded			1,800	


Regulated by RICS




MICHAEL R LEE
CHARTERED SURVEYORS


5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

Registered by RICS 


MICHAEL R LEE
CHARTERED SURVEYORS

5.1 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

- **Guidance**
 - Beware using BCIS Online for high rise and mixed use estates
 - If challenged by Loss Adjusters, they are likely to look to Spons for high rise, to try and show under assessment
 - Assessments are subjective
 - File – make sure you file is complete showing all relevant information, area calculations and elemental cost schedule (with comments on adjustments)
 - IDENTIFY HIGH FIRE RISK BUILD ISSUES
 - Timber Floors (premiums are rated 350% higher than concrete)
 - Aluminium Composite Material (ACM)/Claddings (many insurers will not insure)
 - If wrong then a claim is likely to be refused.

Registered by RICS 


MICHAEL R LEE
CHARTERED SURVEYORS

5.1 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

- **Report**
 - GN 3rd Edition: Declarations:
Does not purport to comment in respect of condition
DV for insurance purposes only and no relationship to Market Value
For insurance purposes only.
 - Report should include summary:
Description
Specific inclusions/exclusions
Base sum insured inc demolition and fees
Reinstatement period
Recommended to include key photos and site plan

Registered by RICS 

5.3 GUIDANCE AND EXAMPLES OF GOOD PRACTICE



VAT

- For residential, DV excludes VAT except on fees
- VAT is not payable in event of total claim
- However, VAT may be payable on a part claim – more frequent
- The client should be advised to confirm whether the VAT needs to be insured (most residential block insurers require VAT to be added)
- Provide a gross figure too (Not plus 20% as VAT on fees already included – plus 17.6%)
- Obtain confirmation from client/broker regarding the VAT position in the policy

Registered by RICS



5.4 GUIDANCE AND EXAMPLES OF GOOD PRACTICE



PI cover

- What is a suitable level of cover
- The potential loss if proved negligent and a potential claim can be enormous on large estates can be
- One off increases in PI cover are expensive. Maybe more cost effective to increase total cover

Competition

- Unqualified, not insured, inexperienced
- = Very low fees
- Push to raise standards in Residential Management to make sure "qualified" surveyors with adequate PII and experience

Registered by RICS



5.5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE



Example:

- Mixed-use estate in Docklands
- Four large residential blocks (6-23 storeys)
- 325 flats
- Hotel
- Health club and swimming pool
- Two podium parking levels
- Restaurants and offices
- No information available
- Obtained original sales brochure, lease plans, agents details
- Prepared schedule of accommodation and use
- Site measurements
- Scanned onto AutoCad – produced areas and schematics



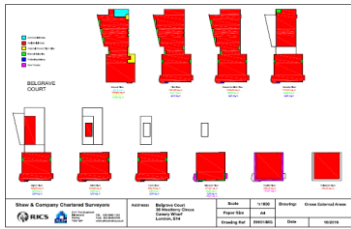
Registered by RICS



5.5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE



Schematic



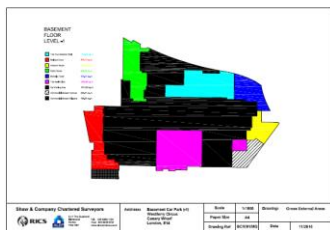
Regulated by RICS



5.5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE



Schematic



Regulated by RICS



5.5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE




- Prepared Elemental Cost Assessment
- Applied appropriate individual shell and core rates – Spans
- Applied appropriate fit out rates – Spans
- Individual Assessment per building type
- Compared final rates with published averages
- End value €350,000,000



Regulated by RICS





MICHAEL R LEE
CHARTERED SURVEYORS
Regulated by RICS

Office: 020 3378 3032
Mobile: 07738 271826
info@michael-lee.co.uk

