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THIS WEEKS FEATURES

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Patricia Stirling, BCAA Insurance Corporation

❖ TAKING THE MYSTERY OUT

Ron Wilkes, Integral Property Loss Consultants

BLAST FROM THE PAST

Sponsored by Integral Property Loss Consultants

❖ FRIDAY, AUGUST 20, 2004



on **Monday, October 10, 2005**

THIS WEEKS FEATURES

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LETTERS TO THE EDITOR

Patricia Stirling, BCAA Insurance Corporation

Hi Ron,

I'm interested in your descriptions of Modular/Manufactured. This is terminology that the industry has always had difficulty agreeing upon.

Would you happen to have any pictures that could be used with your descriptions for the modular, mobile, prefabricated, or manufactured groups?

Also, what is the difference in your descriptions between prefabricated and modular?

Thanks, I'm looking forward to hearing from you!

Patricia Stirling
Underwriting Development Manager
BCAA Insurance Corporation

Editor's Note: Thanks for your enquiry, please see the following article.

TAKING THE MYSTERY OUT OF DEFINING MANUFACTURED / MOBILE / MODULAR / PANELIZED / PREFABRICATED HOMES

It does not matter what you call them, they all have one thing in common. They are all frame structures that are pre-cut and assembled to some degree away from the site location.

MANUFACTURED HOMES are homes made or manufactured in a factory and designed to be transported to a site. Manufactured homes can be large or small, and while they are constructed in the same manner as mobile homes, manufactured homes are not truly mobile. Mobile homes can be moved from one location to another, while manufactured homes are permanently attached to the site using conventional on-site construction.

These homes have to meet the standards in the National Building Code for structure, insulation, heating, plumbing, and air conditioning, thermal and electrical systems. Manufactured Homes are built entirely in the factory then set and finished on site.

A **MOBILE HOME** is a building, the manufacture and assembly of which is completed or substantially completed, that is equipped with complete plumbing, electrical, and heating facilities. It is designed to be moved to a site for

installation on a foundation and connection to service facilities, and to be occupied as a place of residence. This definition also includes a **MODULAR HOME**. It does not include travel trailers, motor homes, camping trailers, or other vehicles or trailers designed for recreational use.

It is a manufactured unit constructed on a chassis and wheels and designed for permanent or semi-attachment to land. Because these homes can be moved from site to site, each home must be registered with a serial number that is attached to the unit.

A **MODULAR HOME** is a factory-built house or building intended for residential occupancy that comprises "modules" with three walls and a roof or ceiling. It has to be equipped with complete plumbing, electrical, and heating facilities, and designed to be moved to a site for installation on a foundation and to be connected to service facilities, and used as a place of residence. In addition, the modules are to be in as finished a condition as possible before leaving the factory. These homes do not have a chassis attached. Although considered a permanent residence, each of these homes has a registered serial number as well.

Modular and Mobile homes fall within a certain sizes so that they can be transported on highways. These sizes are 12', 13', 14', or 15' in width and 48', 50', 52', 54', 56', 58', 60', 62', or 64' in length. They can be assembled to any shape once on site but each section will have its own chassis. Older mobile homes may not fall within this parameter.

A **PREFABRICATED HOME** is constructed from prefabricated sections that have been cut and assembled in a factory. All other aspects of the home such as finishes, electrical, plumbing, insulation, heating, etc. are constructed on site. A **PANELIZED HOME** is the same as a prefabricated home.

If you find that these explanations are confusing, then look at it this way, these homes are designed for one of two purposes.

1. As a primary residence that is portable enough to move from one location to another such as a trailer park where the land is usually rented and not owned, or
2. As a primary residence that will stay in a permanent location on a permanent foundation on land that is owned.

Since the home is not built on site and constructed off site, then the registered serial number is to ensure that the unit has undergone Canadian Standards tests and has passed an inspection.

For example, think of them this way, Formica and Arborite are registered trade names, and the material is actually laminated plastic for a counter top finish. All of these types of homes are a manufactured home and the other descriptions are only a portion of the process of the construction Mobile Panelized..... Prefabricated ... Modular ...etc.



MOBILE HOME



MODULAR HOME

To the novice layman, you will not be able to tell the difference. With very good quality workmanship, even the expert will not be able to tell looking at the home's finishes. The expert will have to get into the attic, crawl space, unfinished basement areas to tell the difference and sometimes they can not tell without researching the history of the home. Aside from the obvious, can you tell the difference in type of construction?



PREFABRICATED HOME



MANUFACTURED HOME



Rae-Tech Investigations Ltd.

International Fire & Forensic Consultants

Rae-Tech Investigations Ltd. is an international fire and forensic consulting firm based in Western Canada. We cover western Canada from our offices in British Columbia and Alberta. We service North America and other Pacific Rim Countries with affiliates in Philippines, Canada, United States, South America and Great Britain.

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BLASTS FROM THE PAST

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2. BUILDING VALUES & BY-LAWS

For insurance purposes there are two methods of providing building values including bylaws.

GRC or RCT VALUES

This approach considers the type of design of the building of which there are over 200; the type of construction of the building of which there are 5; the quality of construction of which there are up to 12; and adjustments for finishes and features. This approach would normally take an appraiser between 5 – 10 hours

to complete depending upon the complexity of the building. This is the approach commonly considered by an underwriter strictly because of the cost of the appraisal and would be performed before a loss occurs.

LOSS VALUES

This approach details the building components, with emphasis on other factors that affect the cost to rebuild such as location, terrain, height, etc. The quality of the components would also reflect the value of that component. This approach would normally take an appraiser between 10 – 20 hours to complete depending upon the complexity of the building. This is the approach commonly considered by an adjuster whereas after a loss the cost of the appraisal does not seem to become a consideration.

CODE UPGRADES

When a GRC or RCT appraisal is performed, code upgrades required at the time that the appraisal is performed are always included because current cost factors at that period in time are taken into consideration when the appraisal is completed.

When a LOSS appraisal is completed only the actual physical building components that were visible and damaged at the of the site survey are considered as part of the appraisal.

BYLAW REQUIREMENT

When a GRC or RCT appraisal is performed, bylaw requirements are not taken into consideration at the time the appraisal is performed. They can be added at the time in the form of a percentage of the appraised value or if the underwriter, broker, or insured knows what the bylaw requirements are they can be added individually.

Bylaws are not taken into consideration as part of a LOSS appraisal unless instructed by the adjuster to include them. If they are to be included the appraiser is instructed as to what to include or how to find out what to include by the adjuster.

BUILDING AGE

The actual building age or the updated building age plays an important part in the appraisal process because over the year's major changes had occurred to the building code in 1941, 1960, 1979, and 1998 which greatly affect the value of a building.

DETERMINING APPRAISED VALUES

For example

BUILDING DESCRIPTION

DESIGN GROUP:	Dwellings, Multiples, Motel
OCCUPANCY DESIGN:	Multiple Residences (352)
BUILDING CLASS:	D

Coupled with bylaws is code upgrades. Code upgrades would automatically be considered as requirements in order to provide the bylaw improvements required by the municipality. In this particular case knowing that there has been two major code changes, the appraiser would decrease the quality of construction each time so the average quality when constructed to fair quality for the 1998 code change, then to low quality for the 1979 code change. This would produce a difference of 36.5 % or \$ 365,000 in the cost of construction to the whole building.

If no major code changes had occurred, then the appraiser would probably take a flat 5 – 15 % of the building value as a blanket bylaw value. This would be a judgment decision of the appraiser.

The cost to determine blanket bylaw values by an appraiser would be in the range of an additional 2.5 hours to 8 hours depending upon the complexity of the building.

How would an appraiser determine specific bylaw values?

The appraiser would have to attend the municipality in order to obtain a copy of the current bylaw requirements, revisit the site, determine which of the bylaws apply, then establish a value for each bylaw required.

The cost to determine specific bylaw values by an appraiser would be in the range of 1 to 4 days of extra work depending on the complexity of the building, location of the municipality, and the location of the risk.

PARTIAL LOSSES

Usually the code upgrade requirements only pertain to the actual damaged portion of the building but the bylaw coverage can affect the whole building. So in summary of the example given what do all these values mean?

\$ 228,990 is the RCV value at time of construction.
\$ 1,000,000 is the RCV value today.

\$ 771,000 is the inflationary value since the building was built of which
\$ 365,000 accounts for the bylaw and code upgrade value
\$ 406,000 would account for the increased cost of construction

For example, if 25 % of the building suffered fire damage, only that portion of the building that is being reconstructed would be subject to code upgrades in construction, while the entire building may be subject to bylaw upgrades depending upon the severity of the loss, the municipality it occurred in, and the amount of structural damage.

THE COST OF APPRAISALS

Generally speaking, in comparison to Real Estate Appraisals that will range between \$ 200.00 and \$ 500.00, the Insurance Appraisal will cost between \$ 375.00 and \$ 1,500.00. Bylaw Appraisals will add between \$ 175.00 and

\$ 2,400.00 to the preceding costs. The average appraisal costs between \$ 600.00 to \$ 1,000.00 today for a home between 5,000 and 10,000 square feet of finished floor area located on the Lower Mainland.

If you are paying any less then you are not achieving your desired results which could result in a GRC policy being underrated by the underwriter. All too often, when we are asked to compete a loss appraisal for a GRC policy, we find that an appraisal had been recently completed and it stated that it was an insurance appraisal when in fact it really was a market appraisal.

These fees would apply to custom built buildings, and not buildings that are tract type of construction where the buildings are built on speculation that they will be sold after they are built. Today most buildings are built for a pre approved buyer.

Tract type construction which started in the late forties, carried on into the seventies died out in the eighties. These types of buildings could and would be appraised en mass using valuation systems by Boeckh or a program that is similar. These systems did not require an appraiser to value the building but a fairly accurate value could be reached by simply asking and filling out a pre determined questionnaire by a broker. The cost of these appraisals was relatively inexpensive.

SUMMARY

Today in this modern age, technology should be making appraisals easier and more economical to perform, whereas it has the opposite effect. The building owner can now upgrade his existing property or construct a new building with a variety of features that would never have been considered in the construction of those building years ago. Today there is just too much variation and couple that with the ever changing bylaw requirements in municipalities every appraisal becomes an undertaking.

For the broker, it becomes a challenge to serve his clients well, especially with underwriters now asking for more information regarding bylaws that result in an undertaking for the insured to deliver.

Editors Note: The cost of a GRC APPRAISAL of this magnitude for Vancouver would be in the neighbourhood of \$ 500.00 or a LOSS APPRAISAL would be in the neighbourhood of \$ 600.00 plus GST. Fees have come down in cost with the new programs implemented June 1, 2005.



Integral Property Loss Consultants are committed to providing loss prevention and managing property losses that are innovative, responsible, and cost effective by assisting the consumer in restoring their property to its origin design, quality and value. We provide a consulting service that assists private and business consumers to make highly informed decisions with regards to a property loss in settling insurance claims.

GRC APPRAISAL REPORTS ~ LOSS REPORTS ~ ASSESSMENTS OF DAMAGE REPORTS
CONDITIONS OF RISK INSPECTION REPORTS ~ UNDERWRITING INSPECTION REPORTS
RESTORATION MANAGEMENT SERVICES ~ REPLACEMENT MANAGEMENT SERVICES
CONFLICT RESOLUTION SERVICES ~ DISPUTE RESOLUTION SERVICES

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And there you have it for this edition.....exit stage left!



Walking Dog