



INTEGRAL CONSULTANTS

for Buildings & Business

NEWSLETTER for AUGUST, 2007

THE 10 MOST UNUSUAL QUESTIONS ASKED REGARDING BUILDING APPRAISALS

1. What makes a building valuable?

- The use and design of the building

2. How do you determine the buildings value?

- The size and energy the building provides

3. What do you mean by energy?

- There are 6 services that can produce energy

4. What are the services?

- Gas, Water, Electricity, Refrigeration, Steam, Air (not in any particular order)

5. How can you attribute each service to the building value?

- Each service is assessed by its whole contribution to functional use and design of the building.

6. Can each service be gauged by a factor towards the value of the building?

- Yes, each service can be gauged by quality of the plant providing that service.

7. What are the qualities?

- Poor, Fair, Average, Good, Very Good, Excellent

8. What determines these qualities?

- The size and type of plant.

9. What else contributes to the quality of the building?

- Finishes and Features of the building.

10. How are they graded?

- The same way the services are.

WHY DOES INTEGRAL CONSULTANTS SPONSOR THIS NEWSLETTER

We feel that Integral's Mission Statement says it all.

MISSION STATEMENT

Integral Consultants is a Professional Organization involved in the practice, study and teaching of Property Restoration. Our principal goals are:

- To always understand and satisfy the needs of the General Insurance Industry, so as to supply it with products and services that will help it to provide an efficient and caring service to it's customers;
- To empower Insurers through information, education, relationships and resources that will enrich their professional development and careers;
- To advance the thought, application and ethical practice of Property Restoration;
- To accept responsibility for the consequences of it's activities; and
- To make every effort to ensure that it's decisions, recommendations and actions function to identify, serve and satisfy all relevant parties.

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, 1998, 2006 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
BUILDING QUALITY:	Average
EXTERIOR FINISH:	Roof: Composite, Flat Walls: Stucco
INTERIOR FINISH:	Ceiling: Textured Drywall Walls: Painted Walls Floors: Carpet, Lino Millwork: Painted Composite
PLUMBING:	Standard Fixtures
HEATING:	Electric Baseboards
ELECTRICAL:	Standard Fixtures
STORIES:	Number: 4 Height: 8
AGE:	30 years
CONDITION:	Average
REGION:	Western
CLIMATE:	Moderate

LOGISTICS AFFECTING COMPUTATION

Ceiling Height:	1.000	High Wind Areas:	1.000
Building Shape:	1.000	Weather Extremes:	1.000
Basement:	1.000	Congested Areas:	1.200
Building Height:	1.000	Resort Areas:	1.000
Building Size:	1.000	Remote Areas:	1.000
Hillside Location:	1.000	Current Cost:	1.090
Shortages:	1.000	Location:	1.320

This describes a standard strata in Vancouver and for simplicity sake lets say the GRC or RCT

Replacement Cost works out to be \$ 1,000,000, while the ACV or Actual Cash Value is \$ 560,000, appraised in 2004.

What would the building be appraised for in 1974?

Marshall and Swift provide multipliers for this purpose. These multipliers give a comparative cost value for the year it was built all the way up to today's value so an appraiser can give you a value when it was new to a value for 1984 if you so desire. In this particular case the GRC or RCT Replacement Cost would be \$ 228,990 when it was originally built.

So, how is the increase in value arrived at?

The value in 2004 takes into consideration all code changes (remember there has been 3 major code changes since the building was built), and inflation to the tune of \$ 771,000.

How would an appraiser determine blanket bylaw values?

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 three major code changes, the appraiser would decrease the quality of construction each time so the average quality when constructed to fair quality for the 2006 code change, then to low quality for the 1998 code change. The code change in 1979 would not come into play because low quality is the lowest quality for a building. 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. This cost to do this would be prohibited and normally this type of appraisal computation would fall back to blanket bylaw values.

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 \$ 500.00 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 building 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 M S 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.

To learn more about our services, our company, and our clientele please visit us on the web at our new and improved website - <http://www.integralconsultants.ca/>

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