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Case Study: THE HIGH COST OF OBSOLESCENCE

The original 900 square foot structure which is the rear half of the building was built in 1911, with a small stone foundation. It appears that it may have had a front porch across the front of it. This was before the Canadian Building Code came into force in 1941. The foundation, structure and finishes are obsolete and not to building code.

The next indication that any modification to the residence came in 1976 whereas this is probably the era of the 400 square foot addition with a footing and small foundation wall of approximately six inches was added to the front of the existing home. The crawl space was between 4 – 8 inches in height on a dirt floor with no ventilation under it as well as the original stone foundation having remedial work performed to have formwork put in place on both sides of the wall and self-leveling concrete poured in. The existing front porch was added at this time.

Around 1990, the home was converted to a single family home with a finished basement. It is estimated that the basement was converted to a suite around 1998 and the residence became either a partial or full rental dwelling.

A fire occurred one evening in December of 2010, and when the fire department arrived the rear of the house was fully involved. The fire which had a good hold by the time they arrived and they found that it was hard to extinguish after it spread into the attic space. An excavator had to be brought in to pull apart some still-smoldering portions of the two-story home.



This resulted in the addition left standing as well as the east wall and west section of the original building.



As for the inside it has smoke and fire damage. As for the building materials, they are not to code, obsolete, and under constructed.



Due to the condition and construction method of the foundation around the perimeter of the dwelling, it renders the entire dwelling obsolete and it would require rebuilding the structure in its entirety.



On the surface this seems like a simple solution, however it is not as the building is filled with products that contain asbestos.

The fire department in their wisdom decided to bring in an excavator to knock the building down in order to put out the fire which is standard practice but also in their training is to preserve and leave as much of the structure in tact or standing. They cannot be faulted for this except to say that an engineer or loss consultant be brought in as well from a safety perspective. The engineer would have told them to knock down the east wall left standing because it was not safe being left that way and the consultant would have told them to flatten the rest of the structure over the foundation.

The only drawback to that is that it prevents any fire investigator to view the scene to determine cause which in this case was solid fuel appliance in the basement but the investigator and excavator could have worked hand in hand while the fire was freshly out and leave the scene as safe as possible.

Normally the adjuster would have been on site the next morning and have a cleanup crew come in and cart the building away except this did not happen. Instead, the adjuster would have a demolition crew come in tear down the rest of the building and cart it away at a cost of approximately \$12,000 to \$15,000.

This did not happen because there was asbestos present, therefore the restoration company brought in a 24/7 watchman service, portable toilet, and fenced the site. The next step would be to have all services disconnected and an abatement crew to dismantle and remove the balance of the building and debris but there are a few more huddles to jump with this.

- Because there is asbestos, the containers the building is to be placed in are lined with heavy plastic sheets in order to contain the contaminants and while filling these containers the debris cannot be compacted therefore more containers would be required than normal.
- Because it was a fire, the containers cannot be filled until 8 consecutive days later due to the possibility of sparks reigniting.
- Because the debris is mixed and not sorted, it had to be disposed of in a facility that could dispose of it safely which was miles away.
- The fence had to be lined with plastic to prevent the possibility of asbestos dust from escaping out of the confined area.

Once this was accomplished, the foundation hole was filled in and the lot leveled.

The cost of this emergency service, demolition and debris removal resulted in this part of the loss being \$75,000.

Let us look at the reproduction limits required for this building.

REPLACEMENT COST	\$258,455.10	
VALUE		
ACTUAL CASH VALUE	\$90,459.28	Depreciation - Older buildings and buildings that have been extensively remodeled often have customized features or include materials not commonly found in buildings being built today. These features and materials can be expensive, if not impossible to duplicate. Examples include slate or tile roofs, lath & plaster walls, coved ceilings, wainscoting, solid wood doors, custom ironwork, ornamental fireplaces, exposed beam ceilings, stained glass, or other leaded windows, curved staircases or tile floors and other items. Some of these can be considered obsolete as well as the labour practice for installation. Some older building occupancy designs are abundant with these features and current building code and bylaws will render these occupancies obsolete.
CODE UPGRADE & BYLAW COVERAGE	\$167,995.82	Building Code Changes - Older buildings, and many newer buildings, were built during times when building codes were less strict than they are today. If you are rebuilding or restoring a building, you may need to meet the newer and more demanding building codes. Even undamaged

parts of the structure may have to be rewired or plumbed to meet current codes. Building codes may also require you to replace windows with safety glass or replace roofs with fire-retardant materials. Building code changes can add thousands of dollars to the cost of restoring a damaged building. Dangerous materials can also lurk in these buildings which can render them obsolete.

DEMOLITION, CLEAN UP,
ABATEMENT VALUE

\$59,591.86

Demolition and Debris Removal - New building construction normally begins on open ground, perhaps with some brush removal, grading or other minor site preparation. Rebuilding begins with a partially or totally destroyed structure occupying the building site. Parts of the structure may still be standing but are unusable, requiring demolition and removal. The site may have to be extensively cleaned, after an intense fire for example, the soil may be contaminated. The foundation may have been damaged beyond repair. A lot of work is usually required before the first cement can be poured or the first nail hammered in.

Undamaged Parts of the Building and the Contents must be Protected - Once the fire is out or the windstorm has abated, all parts of the property not destroyed must be protected from further damage or looting. This can involve covering a roof, missing windows, and holes in the walls, with plastic sheeting for example. As soon as possible, surviving personal property items must be removed and placed in temporary storage for safekeeping.

Access to the Worksite - When new buildings are under construction, there is usually no landscaping, allowing for easy access to the site. Materials can be driven directly up to any side of the structure as needed. When a building is being rebuilt next to existing buildings, there are trees, shrubs, lawns, flowerbeds, fences, and similar obstructions limiting access. Materials often have to be offloaded further away and hand-carried to where they are needed. This factor is compounded if the building site is on sloping ground. The impact on labour costs can be significant.

Satisfying the Policyholder - One of the most important service elements to a claim, is getting the insured back into

their repaired building as soon as possible. Not only does this reduce the additional expenses part of the claim, but also it strengthens the relationship between insurer and policyholder, through the perception of good service commitment. This heightened “urgency” usually carries a higher cost in materials’ delivery fees and contractor fees. There is not the same pressure or expectation when constructing a building.

CATASTROPHIC OCCURANCE VALUE	\$51,691.02	Construction Costs Increase after Natural Disasters - In the wake of a natural disaster affecting a wide area, the costs of building materials and contractor fees nearly always rise sharply in response to the sudden surge in demand. Even without deliberate profiteering, this would normally be true because when local supplies are quickly exhausted, materials have to be brought in on an emergency basis, often from mills or factories at great distance. This may require higher transportation costs, and a lot of overtime pay. Whenever many buildings have to be repaired or rebuilt at the same time, the cost for each will be higher than normal, sometime much higher.
REPRODUCTION COST VALUE	\$369,737.98	The total of all of the above values will form the Reproduction Cost Value as shown below sometimes referred to as Blanket Amount in insurance terms.

We know that the Reproduction Cost Value will not apply here because the municipality will not let the insured rebuild what he has. The building has outlived its usefulness and must be replaced with today’s standards.

So in effect the insured wants or needs to be cashed out which would be the Actual Cash Value Amount of \$90,459.28 but what about the \$75,000. Normally it would come out of this settlement leaving the insured a little over \$15,000.

Now in this particular case the policy had limitations on it for demolition and debris removal which was approximately \$60,000 and the insured would have to pay the difference or the difference would come from some other source.

This is becoming more and more prevalent and the single limit policy option really has to be addressed in the future because the old simple little \$15,000 demo is a thing of the past with today’s building codes, bylaws and restrictions.