



MICHAEL R LEE

CHARTERED SURVEYORS

REINSTATEMENT COST ASSESSMENTS

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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



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1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS

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- 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

1.1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS

RICS Guidance Note

- Reinstatement cost assessments of buildings
- 2nd edition (GN 4/2011)
- Seeks to:
 - 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

1.1 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS (CONTINUED)

NOT covered by RICS Red Book

- RICS considering its inclusion in Spring revision although considered unlikely
- No requirement in market place for RCA's to be carried out by chartered surveyors

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**

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

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)

1.4 INTRODUCTION TO REINSTATEMENT COST ASSESSMENTS

- Frequency of re-valuation?
 - Guidance Note Para 5.5
 - “....every three years or whenever any extensions or significant alterations”
Best Practice considered to be
Full revaluation every 10 years
Desktop re-assessment (assuming no change in property) every three years
- ‘Condition of Average’
 - Where DV deemed under assessed
 - Claim reduced by same ratio i.e. insured DV:correct DV
 - Potential claim against valuer

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



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2 TAKING INSTRUCTIONS AND PREPARATION FOR INSPECTION

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- 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

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



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3 COLLECTION OF INFORMATION AND SITE INSPECTION

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- 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?

3 COLLECTION OF INFORMATION AND SITE INSPECTION (CONTUNUED)

- Site inspection – takes notes, sketches, photos etc
 - Layout of building
 - Measurements to calculate GEA/GIA
 - 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



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4 BASIS OF ASSESSMENT



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- **Gross Internal/External Area x suitable reconstruction rate**
- **Calculation of floor areas**
 - Gross Internal Area (GIA) or Gross External Area (GEA)
 - RICS Guidance Note states GIA
 - BCIS Online based on GEA
 - RICS Property Measurement (professional statement) 1st Edit May 2015
 - Commercial GIA
 - Residential GEA
 - International Property Measurement Standards: Residential Property (Sept 2016) – being incorporated into RICS Property Measurement (PS) – IPMS 1 ‘Gross External’
 - Which ever is used make sure the appropriate Gross or Net rate is used
 - Calculate areas external open terraces
 - Calculate areas for differing uses



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?

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.

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.

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 Spons!
 - 18 Commercial property cost models e.g. industrial, offices, out of town retail, health care
 - Only three residential models – affordable housing, apartments and office to residential conversion
 - Chose appropriate shell and core base and make adjustments
 - Chose appropriate fit out and make adjustments
 - Adjust for location and date (from Spons 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

4.3 BASIS OF ASSESSMENT

- Elemental Cost Assessment

Property

Type

	Element	Description	Rate	Area GIA	Cost	Notes
1	Substructure					
1	Substructure	Unknown – presumed piled given age and size o building	150	2855	£428,250	
2	Superstructure					
2A	Frame	Cast insitu reinforced concrete frame	100	2855	£285,500	Increase demolition rate as concrete framed
2B	Upper floor	Cast insitu concrete on permanent metal shuttering	35	2855	£99,925	
2C	Roof	Flat roof with an asphalt covering. The roof over the 6th floor also has a single layer of felt applied (assumed as a remedial measure or water ingress). The other flat roofs balconies are asphalt covered.	75	2855	£214,125	Tall buildings so reduce roof rate relative to floor area
2D	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 fourth floor. There is a further metal spiral staircase between the 5th and 6th floors	25	2855	£71,375	
2E	External wall	Masonry party walls with adjoining property and cast insitu reinforced concrete wall	120	2855	£342,600	
2F	Windows and external doors	Double-glazed aluminium windows and external doors, timber fire exit and plant and machinery doors, 2no. concertina goods doors and 1 no. roller shutter door to the basement garage	75	2855	£214,125	
2G	Internal wall and partitions	Demountable partitioning on the majority of floors (except 3rd and 4th floors that are open plan). Stud partitioning of the core areas to divide space into WCs and kitchenette	25	2855	£71,375	Advise client that tenants demountable partitions are included in our assessment
2H	Internal doors	All internal doors are flush painted timber doors. Some have Georgian wired vision panels	15	2855	£42,825	
3	Internal finishes					
3A	Wall finishes	Emulsion painted plaster walls	30	2855	£85,660	
3B	Floor finishes	Carpet tiles to the office floors, timber laminate to the core lobbies, vinyl flooring to the WCs and terrazzo tiles to the main ground floor reception	80	2855	£224,400	Raised floor to office areas
3C	Ceiling finishes	Suspended plaster soffit ceilings to the cores and a mixture of exposed painted concrete and suspended ceilings to the office areas	25	2855	£71,375	



4.3 BASIS OF ASSESSMENT (CONTINUED)

4	Fittings					
4	Fittings	Reception desk in both ground floor offices. Kitchenettes to each floor and 2no. on the ground floor – total of 8no.	20	2855	£57,100	
5	Services					
5A	Sanitary fittings	6th floor – 1no. WC and 1no. WHB, 5th floor – 2no. WCs and 2no. WHBs. 4th floor – 3no. WCs and 3no. WHBs, 3rd floor – 3no. WCs and 3no. WHBs, 2nd floor – 3no. WCs and 3no. WHBs, 1st floor – 3no. WCs and 3no. WHBs, Ground – 1no. WC and 1no. WHB, Basement floor – 1no. WC and 1no. WHB	20	2855	£57,100	
5B	Services equipment	8no. Dishwashers to the kitchenettes	3	2855	£8,556	
5C	Disposal installations	Cast iron soil and waste pipes to the upper floors and a mixture of UPVc and cast iron to other floors	10	2855	£28,550	
5D	Water installations	Cold water supply only. The hot water supplied by point of use water heaters in each of the WCs and kitchenettes	15	2855	£42,825	
5E	Heat source	Mains gas – although not in use	0	2855	£0	Included in SF
5F	Space heating and air treatment	Electric panel heaters to common parts, air conditioning cassettes and VRF	185	2855	£528,175	
5G	Venting systems	Mechanical ventilation to WCs	0	2855	£0	Included in SF
5H	Electrical installations	Electric light and power, mains, switchgear and distribution. Small power via underfloor busbars	110	2855	£314,050	Includes core electric heating
5I	Gas installations	None	0	2855	£0	Included in SF
5J	Lift and conveyor installations	2no. Passenger lifts, 1no. serves ground to 6th floor and 1no. serves basement to 4th floor	30	2855	£86,650	
5K	Protective installations	Fire Alarms	10	2855	£28,550	
5L	Communications installations	Some data cabling (mainly in the tenanted part of the property – basement and ground floor)	5	2855	£14,275	
	Rate					
		Subtotal of elemental cost			£3,320,365	
		Preliminary costs			£332,037	
		Contingency			£182,620	
		Total			£3,835,022	
		Rate			£1,343	
		Rate Rounded			£1,350	



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5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

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- **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.

5.1 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%)

5.2 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



5.3 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





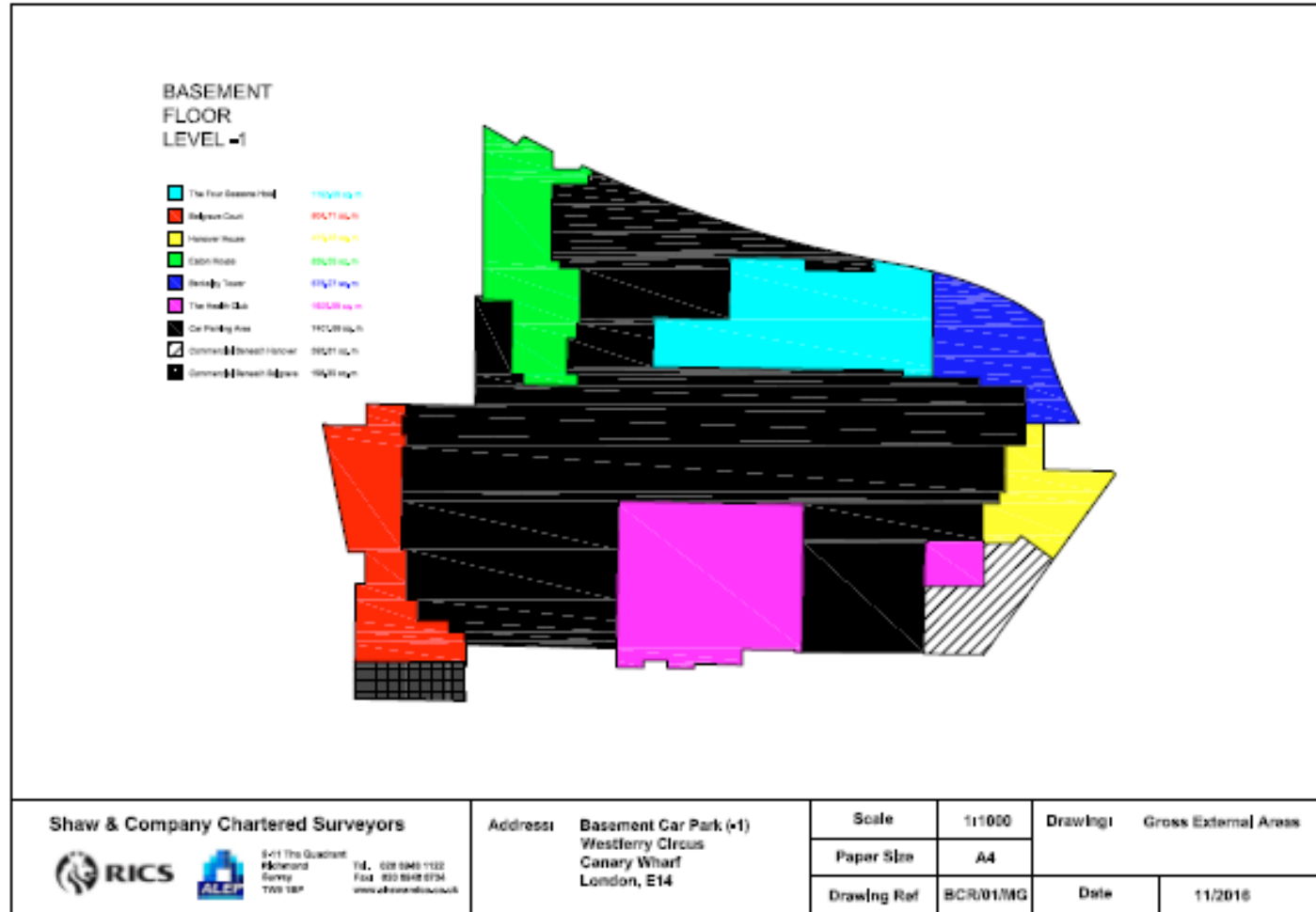
5.4 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

Schematic



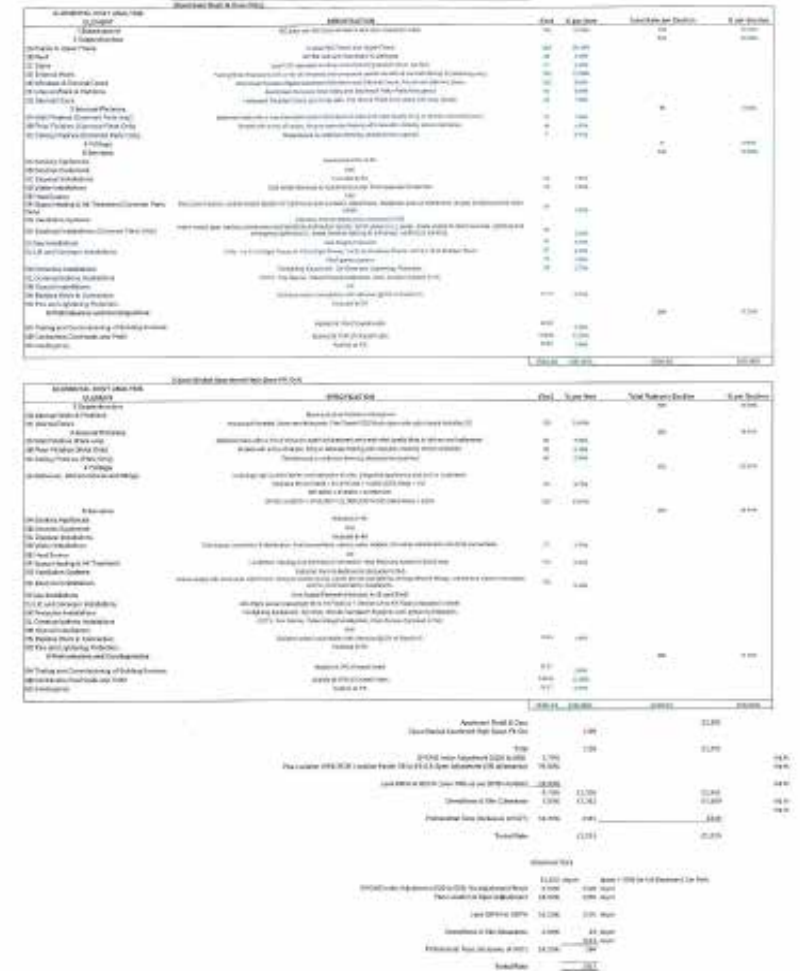
5.5 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

Schematic



5.2 GUIDANCE AND EXAMPLES OF GOOD PRACTICE

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



The image displays two screenshots of a detailed cost assessment spreadsheet. The top screenshot is a table with columns for 'ELEMENTAL COST', 'DESCRIPTION', 'UNIT', 'GROSS RATE', 'NET SURFACE RATE', and 'GROSS VALUE'. It lists various building components such as 'Structure', 'Services', 'Fit-out', and 'Landscaping' with their respective descriptions and values. The bottom screenshot is a summary table comparing the project's final rates against published averages for different building types. It includes columns for 'Building Type', 'Final Rate', and 'Published Average Rate'. The final rate for the project is shown as £350,000,000.



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