



THE CHARTERED INSTITUTE
OF LOSS ADJUSTERS

AN INSIGHT INTO INSURANCE REBUILDING COSTS

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1. Introduction

In the course of dealing with most building claims it is almost inevitable that some comment will be required as to the adequacy of the sum insured. This will normally involve the calculation of the “Rebuilding Cost” or “Value at Risk”. In many cases this will be a summary exercise however in others the circumstances may demand a more analytical approach.

For the majority of policies the sum insured will represent the absolute limit payable and the basis on which the premium is calculated. Commercial policies will typically contain the average condition which will be applicable in those instances where underinsurance is determined.

With experience the loss adjuster will become able to judge the level of accuracy necessary in any given situation. Whilst in most cases a ‘rule of thumb’ method will be applied it is a paradox that a claim of relatively low value may require evaluation of a property of significantly greater overall value. There are some important pitfalls to consider.

It is important to be aware that there is no definitive answer to any particular building cost other than by obtaining a tender for the reconstruction of the insured property concerned at the prevailing market rates. As this will not be an option in most cases other methods of calculation will need to be considered.

In this text I have endeavoured to cover some of the basic principles however I have purposely avoided inclusion of any definitive cost information which would quickly become outdated and for which reference should be made to various periodic publications and current cost data available to the loss adjuster.

Finally, I am indebted to Andrew Cavan and Michael Weatherhead for reading the text and making some useful suggestions. In addition, I would like to thank Joe Martin of BCIS for kindly reviewing this paper and BCIS for permitting the use of the illustrations from BCIS Online.

John R Carey



2. Some basic principles

2.1 What is a Value at Risk?

In the context of buildings insurance, the 'value at risk' is the rebuilding cost of all of the property insured including demolition and professional fees, either at the time of the loss or, in some cases, at the time of reinstatement.

The definition of the 'buildings' is usually included within the policy and, in the case of commercial insurance, the policy schedule should indicate the property or properties to be insured.

2.2 The Sum Insured

The sum insured will normally reflect the absolute limit payable under the policy item and onus is placed upon the policyholder to select the appropriate sum insured and of course he may defer to an appropriate professional for this purpose.

Critically for insurers, the sum insured is the measure upon which underwriters base their premiums for different classes of business. The purpose in checking the adequacy of the sum insured is, therefore, to ascertain that an appropriate premium has been collected.

If the figure is found to be inadequate insufficient premium has been collected and this will often result in the application of the average condition contained within most commercial and some domestic policies.

In severe cases, the ultimate sanction of the insurer may be to decline if the underinsurance is found to be a deliberate misrepresentation.

On some commercial policies the declared value will be the relevant figure for the purposes of assessing underinsurance. I will expand further on this later.

2.3 Average

This is the normal consequence of under insurance in most commercial and a very few domestic policies. The policy condition requires that where underinsurance is determined the claim will be reduced on a pro rata basis i.e. in the ratio that the sum insured bears to the value at risk. In the absence of any other provision in the policy the value at risk is determined at the time of the loss.

A typical average clause reads as follows:-

'If at the time damage occurs the sum insured is less than the value of the property the Company's liability for any loss shall be limited to that proportion of the amount otherwise payable which the sum insured bears to the whole'



There are various forms of this wording all having the same consequence and the above quoted example is much less wordy than some of the latter-day examples. It is perhaps worth noting that it is the value at the time of the loss which is material in the absence of any term to the contrary.

2.4 Reinstatement Average

This is the most common current form of the average clause. The reinstatement conditions within the policy effectively provide for reinstatement without deduction for depreciation [wear and tear]. For the purposes of average it is the value as at the time of reinstatement which is material as opposed to the value at the time of the loss.

It is usual to find that the policy condition provides some margin for underinsurance often in the form of the 85% average clause although this can arise in differing forms. In such instances provided that the sum insured reflects no less than 85% of the value at risk average will not apply. Thus the policyholder is given 15% inflationary margin.

Another variant on the above might be to allow the Insured leeway of up to 115% of the sum insured which alters the calculation slightly in favour of the insurer.

A typical reinstatement average clause reads as follows:-

'If at the time of reinstatement the sum representing 85% of the cost which would have been incurred in reinstating the whole of the property covered by any item the liability of the Insurers will not exceed that proportion of the amount of the damage which the sum insured shall bear to the sum representing the total cost of reinstating the whole of such property at that time'

Perhaps a little verbose but, hopefully, readers will gain the general import. The practical problem arises where the adequacy of the sum insured is borderline or just below the 85% threshold. Having already provided what is effectively a margin to allow for inflation and price fluctuations it is doubtful that many insurers would be persuaded to offer any further leeway.

It is also worth noting that some property owner's policies occasionally provide the option to waive the average condition on the proviso that a professional valuation has been obtained within a stipulated period.

2.5 Local Authorities Clause

I will not provide a detailed narrative here save to say that most policies contain provision for the cost of compliance with local authority or statutory requirements and this should normally be within the policyholders'



contemplation when considering a sum insured. As the sum insured will reflect the absolute limit the figure will need to allow for the cost of any necessary compliance.

There is an inherent difficulty faced by the policyholder in anticipating what changes in statutory requirements may lie ahead until such time as reinstatement actually takes place. Where applicable, most policy wordings will apply average to the additional costs incurred in respect of compliance in the same ratio as the remainder of the loss.

However, there are a number of wordings which provide that the theoretical additional cost of compliance should not be factored into the value at risk although average would apply to any such additional costs in the same ratio. In contrast, 'value at the time of reinstatement' could be implied to mean the value including any necessary additional costs of compliance. Reference to the actual wording in each case would be advisable.

In any event, the sum insured will normally be an absolute limit.

2.6 Day One Average

Many commercial policies are written on a 'Day One' basis. Often misunderstood, the purpose is essentially to cater for unknown inflationary factors over the period of the policy cover and the reinstatement period. It is possible that some large buildings may take two or three years to reinstate following a fire [or other peril] and potential inflation during the interim period could be substantial.

The policy requires that the Insured submits a declared value being the value at inception of the policy period [hence 'Day One'] and an inflationary headroom is added, typically varying between 15 - 40%, to establish the sum insured. The sum insured is of no relevance to assessing adequacy but merely an absolute inflationary limit.

A typical Day One average clause is as follows:

'If at the time of damage the declared value of the building is less than the cost of reinstatement at the start of the period of insurance, liability for any damage will be proportionately reduced and will be limited to the proportion that the declared value bears to the cost of reinstatement'

In contrast with reinstatement average the critical value for average purposes is the value of the property as at 'Day One' [or date of inception] and the average ratio is calculated as at this time. The sum insured whilst being an absolute limit payable operates only as inflationary headroom. This creates a common misunderstanding on the part of some policyholders and professionals that the sum insured is the relevant figure for the purposes of average which can frequently lead to underinsurance.

Therefore, it is necessary to establish the value of the property as at 'Day One' which may involve calculation of a current day reinstatement value and adjusting backwards for inflation using an appropriate index to which I will refer later.



In addition to inflationary changes, alteration in the VAT rate can be material in some circumstances. In such cases the VAT rate pertaining at 'Day One' will be material for the purposes of the average calculation but VAT at the prevailing current rate will apply to the claim.

The Declared Value should generally include for all reinstatement costs as at the time of inception [save for any ongoing inflationary costs] and also including:

- professional fees
- debris removal
- compliance with statutory requirements [looking forward]

As I have already mentioned, the latter point may place the policyholder in some difficulty as it may be problematic to anticipate the costs of statutory compliance until such time as reinstatement takes place. Nevertheless some provision must be made.

An interesting scenario can arise in a period of deflation where the Day One reinstatement value is more than current day. Tender prices are renowned for fluctuation and are more sensitive to supply and demand than retail costs generally. This scenario was not probably within the contemplation of the insurer in drafting the wording and it is unlikely that the policyholder should suffer as a result.

2.6 Reinstatement v Indemnity

Inherently, any calculation of a current rebuilding cost will initially be on a 'reinstatement' basis. Where the policy or, indeed the claim, is not on a reinstatement basis then the value at risk will need to be depreciated or discounted in a similar manner to the claim. Occasionally, underinsurance will cause the policy to revert to 'indemnity'.

The practical effect of depreciating both claim and value at risk by the same % rate will make no difference to the claim outcome provided that average applies to both scenarios. This may seem a little iniquitous as it seems to obviate the penalty imposed by underinsurance.

A more equitable approach would be to depreciate the costs on an elemental basis assuming that such an analysis is feasible. Considering a typical building loss following a serious fire it would be normal for the damaged elements potentially including the roof and internal fit out (including finishes, joinery, decoration and services) to depreciate at a faster rate than the residual structure including the walls and foundations.

Using this approach the indemnity settlement after average will be slightly less than the reinstatement settlement after average which would seem to be more equitable.

In the case of a detailed analysis being carried out this would involve a prediction of the lifespan of each element having regard to the age of the property. Therefore a roof which is 25 years into a 50 year lifespan would be depreciated to 50% of its new value and so on.

In practice some items could potentially last for the lifespan of the building provided well maintained including foundations, brickwork, structural steel, plasterwork, internal joinery [floors, stairs etc]. In contrast, others such as roofing external joinery decorations and services installations will have a more finite lifespan and will require replacement within the lifespan of the building. Life spans will vary between domestic and commercial properties.



Whilst very subjective and dependant of levels of maintenance I would suggest some very approximate life-spans for common building elements which often arise as follows:

ELEMENT	SUGGESTED APPROXIMATE LIFE-SPANS
Blue Slate Roof	75 years
Concrete tiled roof	50 years
Built up felt roof and decking	15-20 years
Corrugated fibre reinforced cement sheet	30 years
Profiled metal sheet cladding	30 years
Windows/external doors	30 years
Floor coverings	20 years
Suspended ceiling or demountable partitions	20 years
Decorations	10 years
Plumbing and heating installations	40 years
Electrical installations	50 years

In the event that the above approach is impracticable and it is necessary to apply a broad brush % depreciation, for instance where a rebuilding cost rate has been used for the value at risk, then it might be appropriate to discriminate between the level of depreciation applied to the claim items and that for the value at risk. In most cases this will be a higher depreciation on the claim items usually containing internal finishes and a slightly lower depreciation on the value at risk for the whole, which of course includes foundations and external walls.

2.7 Floating Insurances

This is the term used where insurance is taken out on a range of properties often at different locations with a total sum insured. Even if a specific value is listed against an individual property this will be of limited relevance as it is the value of the whole that counts. Therefore, in these instances it may be unrealistic to check the overall sum insured but insurers will sometimes require a comment on the value nevertheless.

Attention should be given to the basis of the valuations for instance to see that professional fees and VAT have been included if appropriate.

In rare instances, where there may be serious concerns, insurers may ask adjusters to carry out a physical checking exercise of the whole portfolio.

2.8 First Loss Policies



This type of cover might be used where the policyholder has property on a range of sites and the potential of a total loss i.e. across all of the property is considered to be unlikely. The total value at risk is included as a declared value whilst the sum insured is much less with the agreement of the Insurer. The policyholder will receive a significant saving in premium as a consequence. In practice such policies are rare these days but nevertheless worth noting.

A typical average clause might be

'If the declared value of the property covered hereby be less than the actual value at the time of destruction of or damage to such property the amount payable under this item shall be proportionately reduced'

For average purposes the value at risk is assessed as the full replacement cost of all of the property checked against the declared value.

2.9 Foundations Clause

Rarely seen these days the intention of the foundations clause is to remove foundations from the policy cover and thereby save premium. This is on the mistaken belief that foundations are never damaged. As I have alluded this is perhaps of academic interest only.



3. Some practical considerations

3.1 Basic method of calculation

It is usually accepted that there is an approximate correlation between the floor area of any given property and its rebuilding value although this is not exactly a straight-line relationship. Due to economies of scale, the larger the property the rebuilding cost rate should reduce.

Thus the floor area is the principal means of checking the adequacy of a sum insured. A rate can then be applied or conversely the floor area can be divided into the sum insured to see what rate it produces and whether this falls within acceptable parameters. I will expand on this later.

3.2 Floor Areas

As I have mentioned, in the majority of cases the floor area of the property will be used to calculate or check the adequacy of the sum insured. At the time of inspection of the risk property the adjuster will take the overall dimensions and make a sketch of the building concerned.

The normally accepted convention is the metric system. Whilst the imperial system is still used by certain die-hard professionals (e.g. particularly estate agents), this has become outdated and duodecimals are much harder to use in practical terms.

For the purposes of converting imperial to metric, the following approximate conversions apply:

$$1\text{m}^2 = 10.76\text{ft}^2$$

$$1\text{m} = 3.28\text{ft}$$

3.3 Measurement

A 20 metre or 30 metre long cloth tape is probably the most useful equipment for taking the external measurements of buildings. The tape can be conveniently hooked on to the corner of the building in question. Laser measuring devices such as the Leica Disto are a modern innovation and can be used to good effect for internal measurements. However, these are less use for external measurements in daylight due to the difficulties in seeing the laser dot.

Photographs should always be taken for desk study later.

It is useful to enquire whether drawings are available showing the site layout. It is easier and less time consuming to 'scale' from a drawing rather than physically measure on site! Also an insurance survey plan might be utilised although often these are not to scale and should be treated with caution. Sometimes plans can be located at the local authority building control or planning department.

Drawings can be measured using an architect's scale rule. The normal metric scales used on drawings are 1:500, 1:200, 1:100, 1:50 and 1:20. For example, a scale of 1:100 means that 1cm on the drawing is equivalent to 1m actual



size. It is useful to note that the imperial scale of 8 feet to the inch is roughly equivalent to the metric scale of 1:100 [in fact 1:96] if older drawings are made available.

An enquiry can be made as to whether an insurance or a valuation survey have been carried out as these might contain useful insight. Beware that there is occasionally confusion between a market valuation and an insurance valuation. Sometimes the insurance rebuilding cost will be included within the market valuation report.

Another useful recent source of information particularly where there are multiple buildings or difficulties in access to the site is Google Earth. A similar but more refined service is offered by Ordnance Survey on a subscription basis. Careful note will still need to be taken as to the number of storeys as this will not be discerned from the aerial view..

3.4 Gross External v Gross Internal Floor Area

It is important to recognise the difference between the two methods of calculating floor areas. Gross external floor area [GEFA] involves utilising the external dimensions of a building. On the other hand the gross internal floor area [GIFA] utilises the dimensions between the internal face of the external walls again without deductions for internal features. This is the method normally favoured by estate agents and developers most likely as it approximates better to the lettable floor area.

In larger commercial properties the difference between GEFA and GIFA will probably be of little consequence, say 3-5%, but in smaller properties and particularly dwellings the difference between the two calculations can be substantial due to the thickness of, and therefore the proportion of the footprint area occupied by the external walls. By way of illustration the difference (and therefore the 13 potential error) between the two methods of floor area calculation in a small cottage having thick stone walls could be as high as 15-20% and so caution should be exercised.



4. Household Risks

4.1 Definition of 'Buildings'

In most domestic policies we are assisted with a definition of what constitutes 'buildings'. Whilst these might vary slightly from one policy to another the following definition is fairly typical:

"The private dwelling and its domestic outbuildings, swimming pools, hard courts, terraces, patios, drives, and footpaths, walls, fences, gates and hedges, tanks, drains, pipes or cables all forming part of the premises as stated in the schedule"

The intention is to cover the entire cost of reconstruction of all of the property including debris removal and any necessary professional and statutory fees. VAT should be included as appropriate.

4.2 The BCIS Rebuild Online Service

As I have mentioned it is generally accepted that there is correlation between the floor area and the value of a property and therefore that a m2 rate can be applied for most types of property.

Fortunately, we are assisted to a large extent by the Rebuild Online service produced by the Building Cost Information Service (a division of the Royal Institution of Chartered Surveyors) in conjunction with the Association of British Insurers.

There is a considerable amount of data available for house-building and BCIS have built up cost models for different types of property.

The costs are updated regularly and the online service provides a calculator which produces a detailed report on the build up of the reinstatement cost assessment. The calculator provides costs adjusted for geographical location, size, age and quality of the property. Also, alternative rates are provided for external and internal measurements.

There are adjustments for a variety of common variables such as:

- Number of bathrooms etc
- Floor to ceiling height
- Cellars and conservatories
- Specification
- Chimneys
- Heating systems
- Gardens and grounds
- Garages
-

For practical purposes it is often easier to utilise the external measurements of a building.



It is sometimes argued by policyholders and professionals that the rebuilding costs included in the guide are on the 'high side'. If indeed this is the case it is important to appreciate that the guide is used as a yardstick throughout the insurance industry most premiums being calculated on the same basis. It is therefore preferable to stick broadly to the guide subject to the qualifications I will make in the following text.

BCIS **RICS**

House Reinstatement Cost Table (Gross external area)

Price level at February 2016 and Leeds (93; sample 76)

House Reinstatement Cost Table (Gross external area)

Age	Size	Quality	Detached house	Semi-detached house	Terraced house	Bungalow	Semi-detached bungalow	Terraced bungalow	
1980 to date	Starter home	Basic	-	£1,245	£1,062	-	£1,196	£1,130	
		Good	-	£1,382	£1,203	-	£1,362	£1,300	
		Excellent	-	£1,593	£1,395	-	£1,577	£1,518	
		Gross external area m ²		-	47m ²	60m ²	-	47m ²	45m ²
	Small	Basic	£1,013	£1,076	£1,079	£1,109	£1,152	£1,083	
		Good	£1,166	£1,228	£1,214	£1,272	£1,313	£1,246	
		Excellent	£1,413	£1,428	£1,400	£1,472	£1,531	£1,455	
		Gross external area m ²		89m ²	62m ²	72m ²	68m ²	53m ²	51m ²
	Medium	Basic	£894	£1,030	£1,007	£1,031	£1,011	£925	
		Good	£1,052	£1,178	£1,178	£1,220	£1,156	£1,067	
		Excellent	£1,292	£1,369	£1,400	£1,533	£1,421	£1,271	
		Gross external area m ²		131m ²	86m ²	84m ²	90m ²	88m ²	86m ²
Large	Basic	£848	£990	£979	£926	£944	£890		
	Good	£1,035	£1,130	£1,131	£1,182	£1,063	£1,011		
	Excellent	£1,266	£1,360	£1,327	£1,467	£1,280	£1,211		
	Gross external area m ²		224m ²	147m ²	142m ²	177m ²	126m ²	124m ²	

ONLINE HOUSE REBUILDING COSTS EXAMPLE REPRODUCED BY COURTESY OF BCIS

4.3 Using BCIS Rebuild Online

The task of selecting the most appropriate rate which fits the dwelling in question should be straightforward in the majority of instances. However, sometimes a judgement call will need to be made between various categories. In the simplest of cases the calculation will take the form of the following:

GROSS EXTERNAL FLOOR AREA X APPROPRIATE RATE = REBUILDING COSTS
(including all floors)

The guide gives options for the following:

- Region
- Type - detached, semi-detached, terrace, bungalow, and semi-detached bungalow
- Age - post 1980, 1946-1979, 1920-1945, 1840-1919 and 1720-1839
- Size - small, medium and large (Note the average floor area provided to illustrate each)
- Quality - basic, good and excellent



However, I would strongly advise the reader to study the specification and parameters contained within the guide as very often adjustments will be warranted for additional features contained within the property and, perhaps, inflation.

Careful reading of the guide will reveal that the BCIS rebuilding rates include for demolition, construction costs and professional fees but exclude some other costs.

4.4 Adjusting BCIS Rebuild Online Rates

With the above in mind it will be noted that additional allowance will possibly be required for any of the following:

- attic floor or additional storey - usually at a discounted rate and dependant on the degree of fit out or whether fully incorporated within the roof space
- cellar or basement - usually at a lower rate and dependant on degree of fit out
- conservatory – these will need to be added possibly using an approximate rate or lump sum from a specialist
- garages – integral garages can be priced at the same rate as the house for practical purposes whilst the guide will include rates for semi detached or detached structures. Lump sums can be added for prefabricated structures
- outbuildings - use an approximate lump sum for smaller building or a rebuilding rate for larger building
- garden and boundary walls- often these can add a significant cost and will need to be added
- paths, driveways and patios will need to be included as extra items
- drainage - normal drains within the immediate vicinity of the building are included but cess pits and abnormally long private drain runs will be extra to the rebuilding costs included in the guide
- swimming pools will need to be added where these arise usually by reference to a specialist pool supplier. Clearly these will represent significant additional costs
- abnormal construction e.g. thatch, masonry, timber frame etc
- abnormal features e.g. additional bathrooms, expensive kitchen, particularly ornate finishes etc
-

The above list is not necessarily exhaustive and there may be other factors to take into consideration. I will expand on a few of the most important additional considerations below.

4.5 Stone Dwellings

The costs included in the 'guide' are largely based on brick built properties and the cost of construction in stone (common in many parts of the country) will therefore present a considerable extra cost. Likewise, natural slate roof coverings will significantly add to the rebuilding cost. However, such features often go hand in hand with the categories for older properties. It could be argued that these higher rates inherently include for more traditional types of construction.

However for modern construction an adjustment will certainly be required where such features exist. In these cases I would suggest that, as a rule of thumb, it may be appropriate to include an additional allowance of anywhere between 20% and 50% on the rate depending on the quality of construction.



4.6 Timber Framed Houses

Generally, modern timber framed houses are difficult to distinguish by outward appearance from the traditional equivalent. A possible indication might be dry-lined external walls which are 'hollow' when tapped internally although beware that dry-lining fixed with dot and dab is increasingly also used in traditional construction as a quicker alternative to wet plastering.

Such properties are constructed in the first instance as a series of prefabricated timber frames connected together on site. This is then normally (but not always) enclosed in brickwork. All internal partitions are in timber studwork and all internal wall linings are plasterboard.

It is suggested that there are cost savings to be made with timber framed construction although this is largely achieved by prefabrication and efficient procurement. However for a one-off replacement these types of buildings can become more costly. Whilst the additional cost is open to some debate I would suggest an additional loading in the order of 5% as opposed to traditional construction a view which seems to be supported in the BCIS guidance note [March 2016].

4.7 Thatched Roof

Thatched roofs are unlikely to trouble the majority of loss adjusters only being prevalent in certain parts of the country. However this form of roof construction will incur a significant additional cost dependant of the type of thatch used. A guidance note published by the BCIS [March 2016] suggests that the additional cost could be as much as £150-180/m² roof area as opposed to a concrete tiled roof.

4.8 Additional Floors

Clearly, there are economies to be gained from adding additional floors, making use of the same roof and foundations. Most of the house building rates will be calculated on the basis of typical 2 storey dwellings [unless otherwise stated] and it is only right that any additional floors should be included at a lower or discounted rate.

Reference to the BCIS guidance note [March 2016] suggests that for a full additional storey the normal rate could be discounted to 70%. However, where the additional storey is created entirely within the roof-space [such as a dormer conversion] then the rate should be further discounted and perhaps 50% of the guide rate.

4.9 Basements

Some of the same principles apply as with additional storeys in that the foundations and roof have already been provided for in the main rate. I would therefore suggest a discounted rate for basement occupied as living accommodation and perhaps the 70% would apply.

If the basement is merely a void or not fitted out the additional costs are really only the excavation, external walls and waterproofing and perhaps 40% of the rebuilding rate would be more appropriate.

4.10 Garages

Integral garages are generally calculated at the same rate as the house. However for all other semi-detached or detached garages a lump sum might be included. For prefabricated structures recourse can be made to specialist suppliers. These will often exclude the concrete base which will need to be added.



4.11 Flats

Flats come in two forms. Firstly large older properties are often converted into flats. For this purpose the rebuilding cost for a large house might be considered by adding on the abnormal costs such as additional kitchens, bathrooms, fire protection etc. Alternatively, BCIS provides tables of rates for flat conversions.

However, perhaps the most common form would be purpose-built blocks of flats. These fall into social housing where rebuilding costs are unlikely to be an issue and the private sector where the construction might be to a higher standard. Such developments have been popular with property investors and the buy-to-let sector. Again, there are specific tables of rates included in the BCIS house rebuilding costs. Recourse might also be made to the BCIS commercial building costs where average rates are included based upon actual schemes. Bear in mind that the latter will not include demolition and professional fees.

4.12 Historic Buildings

BCIS qualify that their data is not appropriate for historic or more complex buildings which require a more detailed approach and potentially reference to a quantity surveyor. Such buildings will often encounter problems with listed building and conservation officer requirements, the consequences of which can be extremely costly. The RICS Conservation Panel recommends that consideration may need to be given to the following items:-

- timber framework on pre 1950 buildings
- additional thickness of walls
- unusual wall construction such as cob, knapped flint, local stone or wattle and daub
- internal finishes including timber panelling and decorative ceilings
- the additional cost of conservation of debris in the event of demolition
-

Additionally, I would suggest that the cost of lath and plaster, moulded cornices and skirtings will be factors to consider.

4.13 Inflation

As the BCIS Rebuild Online is updated on a continual basis adjustment for inflation will rarely need to be considered.

4.14 VAT

The construction of new housing together with some associated works is zero rated despite the fact that VAT will inevitably be incurred on repairs. However, VAT will arise on demolition and professional fees.

The BCIS rates will include for VAT as appropriate [on professional fees] and it is not necessary to make any additional allowance for VAT on dwellings where total reconstruction is theoretically involved.



5. Commercial & Public Sector Risks

5.1 Defining what is at Risk

As a reminder, the sum insured should reflect the theoretical rebuilding of all the property at risk and shown on the schedule including demolition and professional fees.

It is sometimes argued that elements of the structure such as foundations could never be damaged and so why include them in the value at risk? Clearly the sum insured should reflect all of the property at the risk address even if the risk of damage is negligible as the premium has been calculated on this basis.

5.2 Enquiries & Procedure

The calculation of a commercial or public sector rebuilding cost is complicated by the fact that there is a greater variety of policy wordings and potential considerations and none the least, different types of buildings. The starting point is usually the policy schedule which shows the actual buildings to be covered by the policy. I will list some of the possible considerations as follows:

- Schedule of buildings to be covered by policy - these could be on one site or even different addresses. If the schedule splits the various buildings or locations into separate sums insured then the rebuilding cost exercise is made all the more easier.
- Buildings definition contained within the policy.
- Does the policy cover foundations? Foundations can be excluded by the 'foundations clause' although this is very rare these days.
- Does the policy have debris removal cover? More than likely included but could be insured as a separate item on the policy with a separate limit.
- Does the policy cover professional fees? More than likely included but could be insured as a separate item on the policy.
- Is the policy written on a reinstatement or indemnity basis? Although indemnity wordings are increasingly rare, in such instances the rebuilding cost will be depreciated for the purposes of the claim. In the case of the more usual reinstatement wording this will revert to indemnity in the event of the Insured's failure to comply with the conditions.
- Is the policy written on a 'Day One' basis? These days 'Day One' wordings are very common. In this event the value at risk will be calculated as at the time of reinstatement and indexed back to Day One – usually the inception date. The cost of statutory compliance will need to be included.

The above list is not necessarily exhaustive.

It goes without saying that it will be necessary to take measurements and basic constructional details of the building or buildings in question (e.g. brick walls, steel frame, slate roof, profiled metal cladding, etc.). An architect's or an insurance plan will sometimes be available in commercial situations and so it is always worth asking. Photographs can be useful for later reference in the office.

Also, the question should be asked of the Insured as to how the sums insured have been calculated. It is possible that a professional valuation has been obtained which will be of some assistance particularly in the case of a



floating sum insured covering several sites. For example this will quickly reveal whether VAT has been included the relevance of which I will mention later.

The internet provides a valuable resource and Google Earth can be utilised to gain an appreciation of the configuration of buildings on the site.

5.3 Possible Approaches to Verifying a Building Sum Insured

The calculation of a commercial or public sector rebuilding cost is complicated by the fact that there is a greater variety of policy wordings and potential considerations and none the least, different types of buildings. The starting point is usually the policy schedule which shows the actual buildings to be covered by the policy. I will list some of the possible considerations as follows:

As I have already suggested there are various levels of calculation and it would be usual to start with a rule of thumb method working upwards depending on the potential for under-insurance.

- Enquiry as to the basis of selection of the sum/s insured. Has a professional valuation been carried out by the policyholder and if so can the information be validated? Beware that such a valuation will often exclude VAT which may need to be added. Also adjustment may need to be made for inflation.
- 'Rule of thumb' - calculate the gross floor area [internal or external] for the building or buildings and divide the resultant area into the sum insured. Does the resultant per square metre rate fall well within the anticipated parameters?
- Multiply the floor area by appropriate market acceptable rebuilding rates reflecting the type of building. Consult publications such as BCIS, builders' price books and other industry information as appropriate. Beware that allowances will need to be added for demolition and professional fees [see later]. Does the resultant figure exceed the sum insured?
- In the case of comparatively recent construction, say, up to 10 years old, can the actual construction costs be produced by the policyholder? If so, it might be possible to add an inflationary factor. Beware that allowances will need to be included for demolition and professional fees [see later].
- In the case of significant destruction, can the claim costs be extrapolated to reflect the cost of rebuilding the whole? This may be a useful approach in the cases where substantial damage has occurred to the property concerned. For example where the roof and internal finishes/services are replaced as part of the claim the value of the walls and substructure could be added on to give the approximate total rebuilding cost.
- As a final recourse it may be necessary to utilise approximate quantities - This would be a more detailed exercise usually undertaken on an elemental basis and I would suggest best left to a quantity surveying colleague. Occasionally such a procedure will prove to be necessary in a particularly contentious situation.

The above list is not necessarily definitive.

5.4 Using the BCIS Building Cost Data

By far the most usual approach would be to check the value at risk by reference to the average rates contained within the Building Cost Information Service [BCIS] data. Indeed, this is the main resource available to the loss adjuster for verifying rebuilding costs although other data is available such as often contained within builders' price books.



The BCIS information is collated from a vast number of actual projects submitted by quantity surveyors throughout the country. Certain types of building are more prevalent including public sector [e.g. schools etc] however it is the case that some types of commercial developments tend to feature to a lesser extent for reasons of commercial confidentiality. It is possible that ‘design and build’ contractors and certain classes of property owner such as hoteliers may not wish to share such information with their potential competitors.

The costs are published in hard copy but, far more preferable, is the online version which provides greater flexibility and the ability to automatically adjust rates to any given location or date.

BCIS **RICS**

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.
Last updated: 20-Feb-2016 12:20
 › Rebased to 1Q 2016 (276; forecast) and Leeds (92; sample 75)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
Purpose built factories							
Generally (25)	902	187	474	775	1,132	2,949	84
Up to 500m ² GFA (25)	1,037	545	714	888	1,422	1,556	7
500 to 2000m ² GFA (25)	953	187	503	670	1,089	2,949	28
Over 2000m ² GFA (25)	854	250	445	861	1,087	2,159	49

ONLINE AVERAGE BUILDING RATES EXAMPLE REPRODUCED BY COURTESY OF BCIS

Furthermore, access is provided to the cost data of a considerable number of individual projects as well as indices for building and tender costs on which I will comment later.

The BCIS average rates universally use gross internal floor area, this being the area taken between the internal face of the walls. If external measurements are utilised then a simple approximate adjustment can often be incorporated to reflect this. The rate used for a gross external floor area will be slightly lower than the rate based on gross internal. For practical purposes the adjustment may range from, say, negligible on a very large building to 5% for example.

All BCIS average rates are automatically adjusted to the selected date. However, as the data is collated from projects which have been carried out over the last few years there may be changes in construction practice and, notably, building regulations will be more onerous the more recent the property. Due to this important factor the online version of the BCIS allows for the selection of the cut off date from which average costs will be produced e.g. the last 10 or 15 years.



For example, more contemporary data will contain buildings built to comply with energy conservation and disabled access requirements whilst older data may exclude these features. Additionally, features in older construction such as stone walls and slated roofs are unlikely to be reflected in any of the costs and adjustments would need to be made.

When using the BCIS average rates as a basis of validation consideration will need to be given to the following additional components which are not included:

- Demolition including grub up substructure and external works
- External works including:-
 - Hardstandings
 - Gates fences and boundary walls
 - Outbuildings
 - Drainage
 - Utilities
- Professional fees
- Local authority planning and building regulation fees
- VAT [where applicable]

Clearly, this is in contrast to the house-building rates discussed earlier.

5.5 Mean or Median Average Rates

It will be noted that average rates are expressed in terms of 'mean' or 'median' and it is worth explaining the difference between the two methods of calculation.

'Mean' is the arithmetical average of the data being considered. In other words this is the sum of the figures divided by the number of figures. This is probably the more usual understanding of 'average' in a statistical context.

'Median' is the mid-point of the data. There are the same number of figures below or above. The median is not therefore influenced by outlying data the same way as the mean and is therefore generally thought to be a 'better' measure of the typical cost.

However a view will need to be taken in each instance as to the appropriate basis.

5.6 VAT

It is important that the VAT status of the insured is established as this can have a significant bearing on the value at risk (and indeed the claim).

It can be assumed that most new commercial construction will be subject to VAT at the current rate of 20% [October 2013]. However, most commercial organisations are able to recover VAT and so this would never form part of the claim or value at risk for that matter.

Problems arise in respect of those policyholders who are not able to recover VAT and therefore this must be included in the sum insured and value at risk. Typical examples of such policyholders include for example:



- landlords & property investment companies [often where VAT is not charged on the rent]
- churches
- some colleges and universities

In addition, there are many small firms that will potentially fall below the current VAT threshold.

Clearly, failure of the policyholder to include VAT in the rebuilding cost where appropriate is likely to quickly result in under-insurance. This can be further exacerbated with changes in the VAT rate.

As I have already mentioned new house-building and flats can be zero rated for the purposes of rebuilding costs. I mention this again here as occasionally apartment blocks and developments can appear on a commercial policy.

5.7 Demolition

Demolition should include for the clearance of all of the property on the site including grubbing up foundations, floor slabs, hardstandings and drains. The substructure removal costs are often overlooked when demolition prices are quoted – usually down to slab level only.

Demolition costs have risen sharply in recent years due to increases in Landfill Tax which is set to increase still further over forthcoming years. Often in a fire situation it will be impossible to separate the debris much of which will go to landfill as contaminated waste incurring landfill tax. However, in normal demolition circumstances the contractor will be able to separate and process the debris for recycling so as to avoid going to landfill.

The contractor will seek to realise whatever salvage value might be available to him. With the worldwide shortage of raw materials the value of steel scrap has seen an increasing trend.

Clearly any asbestos present will escalate such costs and this should be taken into account.

Allied to demolition the removal of a building may require propping or shoring to adjacent structures for which a cost should be taken into account in the event of a terraced property.

A considered view will need to be taken as to the demolition costs to be included taking into account the above factors. This can typically represent 5-15% of the rebuilding value.

5.8 Professional fees

Professional fees will need to be added as appropriate. Cognisance might be taken of whether the policyholder incurs fees as regards the claim. However any argument that the property could be reinstated without professional involvement should normally be resisted as a planning application will be required at the very least.

Even where the policyholder has utilised a 'design and build' contractor professional fees will have been included somewhere.

Typically, such professional involvement could include:

- Project manager
- Architect



- Quantity Surveyor
- Structural Engineer
- M&E Services Engineer
- CDM Principal Designer
- Party wall surveyor

Charges will vary depending on the complexity of the project but allowances can typically range between 8-15%. Often 10% is used as a rule of thumb. Whilst the level of fees decreases on larger projects the number of professionals increases the more complex the project. Thus the overall percentage could remain about the same the main influencing factor being complexity of the work.

Further guidance on the appropriate level of professional fees can often be gleaned from reference to builders' price books such as Spons, Laxtons or BCIS.

On some larger contracts solicitors may even be involved to draw up contracts. Depending on the circumstances these fees might form a necessary part of the reinstatement and may be contemplated. Occasionally specific provision is made within the policy for legal fees.

5.9 Local Authority Charges

As we are considering the theoretical reconstruction of the entire property the value at risk must necessarily allow for local authority charges including planning and building control fees.

Planning fees are calculated on the basis of floor area of the development and can be ascertained from most local authority websites.

Building control charges can vary depending on the services required and there is an option for seeking building regulation approval from a private building control inspector. Again charges can be ascertained from reference to the relevant local authority.

5.10 Commercial Leases

Many commercial properties are the subject of leases. Whilst leases are probably more relevant in a claim context it is worth noting that the landlord or tenant's respective responsibilities can have a bearing on the scope of the property to be insured and, therefore, the value at risk. Generally speaking the landlord will insure the building and charge the premium on to the tenant as part of the service charge.

Lease arrangements are particularly common in retail, small factory and office situations where the landlord may be responsible for a building 'shell' only. On the other hand the tenant will be responsible for his own, sometimes costly, fitting out works and services installations. The value of these fitting out works can quickly approach the cost of the building itself in certain instances.

The lease may require the landlord to insure tenant's improvements. If so the improvements will have to be carried out under licence and, in some instances, the value notified to the landlord for the purposes of inclusion in the sum insured.

In some cases the improvements may revert to the landlord anyway on termination of the lease.



5.11 External Works

Many commercial buildings and, in particular, factories, warehouses and large out of town retail premises are likely to have extensive external works including hard-standings, paved areas, retaining walls and lighting which may potentially form part of the value at risk. These will need to be added.

In the absence of plans, Google Earth [and other similar online facilities] is a useful tool available to the loss adjuster and a quick estimate of hard-standings and boundary fences can be made.

5.12 Other Cost Considerations

Geographic location is an important factor and construction costs in, say, London will be greater than the North East. Also ease of access to the site will be a relevant factor. A city centre site will be more costly than one outside town. An element of judgement will be required by the individual concerned to take account of any such factors.

The size of a building is also an influencing factor. The larger the floor area the relative cost of the external walls decreases. There are also other economies of scale. Therefore a smaller building will cost slightly more per m² than a larger building of similar construction.

5.13 Inflation Adjustments

The Insured must make adequate provision for inflation within the sum insured selected unless this is on a day one basis.

Occasionally, the loss adjuster may need to apply inflation to historic cost data or even back-track for the purposes of verifying a Day One value. Such information is readily available in the BCIS and other industry publications.

The BCIS data contains a number of different indices and it is important to select the correct one. As we are principally considering the out-turn cost here the relevant index is the 'All-in Tender Price Index' [or All in TPI] as opposed to the 'Building Cost Index' which relates to contractor's input cost rather than out-turn cost. Most of the data is presented on a quarter by quarter basis.

Use of the index data is relatively straightforward. Assuming that it is necessary to update a building cost of £30,000 from January 2014 [1Q14 = 1st Qtr 2014 = 247] to say June 2015 [2Q15 = 2nd Qtr 2015 = 273], simply look up the index for each and apply the ratio to the original building cost e.g.

Index 2Q15

Index 1Q14 X £30,000 = June 2015 Building Cost

273



247 X £30,000 = £33,158

As I have mentioned earlier in the text an interesting situation can occur in a period of deflation when tender costs actually decrease. This may be contrary to the perception that retail costs are generally increasing. In fact the cost



of building materials may well be increasing but in periods of low construction activity contractors are forced to lower their margins in order to win work and the actual tender costs will fall.

In contrast, tender costs can increase above the rate of inflation as contractors increase their margins in times of increased activity.

BCIS All-in TPI #101

Base date: 1985 mean = 100 | Updated: 08-Feb-2016 | #101

Date	Index	Sample	Percentage change		
			On year	On quarter	On month
1Q 2014	247	37	5.6%	3.3%	
2Q 2014	259	39	9.7%	4.9%	
3Q 2014	259	32	10.7%	0.0%	
4Q 2014	260	30	8.8%	0.4%	
1Q 2015	270	24	9.3%	3.8%	
2Q 2015	273	Forecast 13	5.4%	1.1%	
3Q 2015	273	Forecast 5	5.4%	0.0%	
4Q 2015	274	Forecast	5.4%	0.4%	

ONLINE TENDER PRICE INDEX EXAMPLE REPRODUCED BY COURTESY OF BCIS



6. Some common types of commercial & public sector risks

6.1 Agricultural Buildings

Agricultural buildings fall into two main categories these being modern prefabricated units from specialist suppliers and older traditional buildings with a wide variance in cost between the two.

Modern agricultural buildings tend to come from specialist suppliers and can be manufactured at comparatively low cost using an element of prefabrication. These are usually simple 'off the peg' designs and do not require the same level of building regulation compliance as an industrial equivalent. For instance the roofs and walls may be single sheet without insulation and the buildings will typically have a low level of services.

However, as a note of caution some of these proprietary buildings whilst cheap at the time of delivery can be costly to repair or replace in the exact same form. By way of example proprietary pre-cast concrete framed buildings were widely used and economic in their time but more costly to replace in the current day. Indeed the tendency would be towards using the more common steel portals frame.

Older buildings, although simple in construction, may have expensive features such as stone walls, large section timber trusses and slate roofs which will present significant costs in the event of rebuilding. Often the policyholder will place a modern value on these and under insurance can arise in the event that an obsolete buildings cover has not been selected.

In the event of a significant loss it is most likely that the policyholder would simply replace any damaged structure with a currently available low cost building but the premise for the value at risk should be replacement in a like manner unless the cover is on the basis of an obsolete buildings wording.

BCIS average rates are provided for:

- Livestock buildings
- Stables
- Storage buildings
- Nurseries

In addition to the BCIS information there are various agricultural publications available plus reference can be made to specialist manufacturers of farm buildings and greenhouses.

On occasions the sum insured will include the domestic residence. Recourse will be made to the BCIS house rebuilding costs always bearing in mind that these rates already include for fees and demolition costs.

6.2 Factories and warehouses

This includes the larger number of industrial properties with a wide variety of types. On many occasions these will be the subject of leases and it will be necessary to consider the extent of the landlord's interest. The BCIS average rates cater for various types of building although on the basis of more recent methods of construction.



Modern factory and warehouse units typically incorporate a steel portal frame; galvanised purlins; 2m high brick / block dado cavity walls and double skin profiled metal roofs with insulation. Older versions may have corrugated asbestos sheet roofs. Internally, provision will normally be made for office accommodation and W/C's etc. There are many variations on the theme.

Quite often steel portal framed buildings can be erected quickly by 'design and build' contractors almost 'off the peg'. As the designs are often 'standard' the cost of professional fees is usually kept to a minimum. However, the rebuilding cost should normally make full allowance for professional fees as it may not be feasible to utilise the same resource. The cost of debris removal must also be added to any design and build cost.

Such buildings usually contain offices/ welfare facilities and a mezzanine floor. Where these occupy a substantial proportion of the overall floor area I normally take the view that the appropriate BCIS rate for office construction should be applied. However where the offices are within the main structure a preferable option would be to apply an 'extra over' rate for the office fit out element. However, BCIS do offer rates for combined factory and offices.

The main cost factors are:

- size of the building due to economies of scale – i.e. rate will reduce with size
- type of construction
- height of building
- additional storeys usually in older construction
- the level of office fit out
- services provision such as electrical installation, heating, sprinkler installation, etc.

Warehousing will tend to have higher headroom but substantially less services installations and fit out. As these tend to be larger buildings anyway the applicable rates tend to be less than for factories.

Note may be taken of the extent of services in a particular building such as heating and sprinkler installations and adjustment made accordingly.

In contrast, older factory type buildings will often have brick or stone walls going all the way up to eaves height; lightweight steel or timber trusses; steel angle or timber purlins; possibly cast iron columns and corrugated asbestos or slate roof coverings. Generally speaking, such buildings will be single storey with some office and welfare accommodation.

A common variant of the single storey manufacturing facility is the 'North Light' roofed building where the roof formation has a longer slated pitch followed by a steeper and shorter glazed pitch giving a 'saw tooth' profile, so designed to maximise natural light often in textile manufacturing buildings.

Multi-storey manufacturing facilities were common up to the early 1900's particularly in the Northern textile industries. Such buildings usually have thick stone or brick walls, intermediate floors of timber (often overlaid with hardwood) supported by very large section timber beams or steelwork in turn supported by cast iron columns. Roofs will often be slated on timber trusses/purlins or lightweight steel angle trusses/purlins.

Naturally, these traditional specification features will increase the price significantly above those quoted in the BCIS which are, essentially, for new construction. Multi storey mill buildings would undoubtedly be constructed as single



storey facilities in present day. The BCIS average rates will therefore reflect single storey construction for the most part.

However, in contrast, older buildings are possibly likely to have less complex services installations. 35 Whilst offering the above note of caution the BCIS average rates nevertheless remain the principal means of valuing the rebuilding costs of industrial buildings. Average rates are provided for buildings of different sizes and a variety of different types of factory or warehouse.

6.3 Retail & Shops

Retail and shop units incorporate a number of different types of property and will very often be the subject of leases whilst some will be owner-occupied. Leasehold units tend to be let as shells and it is important to consider the responsibilities under the lease and the policy cover.

In some cases the cost of the tenant fit out can be substantial if not as much as the building itself. However such fit out will not normally form part of the rebuilding cost dependant, of course, on the terms of the lease and policy cover for tenant's improvements.

I will mention some of the main types likely to be encountered and for which BCIS average rates can be obtained:

- **Large out-of-town retail warehouse developments:** often owned by institutional landlords are increasingly common these being let as shells for the tenant to fit out. Such buildings are relatively simple steel portal framed construction not too dissimilar from warehouses but with increased architectural detail.
- **Supermarkets:** these come in a mixture of landlord owned and owner-occupied with a variety of styles with varying standards of fit out ranging from budget to high-end. The BCIS data offers suitable building costs.
- **Shopping centres:** often owned by institutional landlords with the individual retail units let as shells. These are of more costly construction possibly with full height brick /blockwork walls, upper floors, extensive public areas and malls and generally increased architectural detailing.
- **Small /medium shops:** often with living accommodation or storage/ offices above. The shop unit will often be let as a shell with no fit out. Recourse may also be required to the BCIS data for flats bearing in mind that such rates will already include fees and debris removal. Cognisance will need to be taken of access to the location as many such units will be in town centres with associated access problems which will add to the cost.
- **Department stores:** often located in town centres and of multi-storey construction. These are usually to a high specification. Town centre locations will naturally attract significantly higher costs due to access considerations.
- **Market buildings:** these are often very simple buildings usually being civic owned. Therefore, such buildings are most unlikely to be the subject of an underinsurance issue.

6.4 Offices

Many offices will be occupied on a leasehold basis and, again, reference will need to be made to the lease and policy cover for tenant's improvements. The BCIS average rates cater for a variety of buildings including different storeys and including air conditioning or otherwise.



Large offices are often owned by institutional investors and let as open plan units. Sometimes these will have raised access floors, suspended ceilings, carpet tiles, under floor bus-bar systems and other basic services already installed. The prospective tenant may be left to install their own demountable partitions. Often the lease will require that any tenant improvement works will have to be carried out under licence if these are to form part of the landlord insurance cover.

The tendency is for many recent buildings to be constructed in out of town office parks. However, where office blocks are located in town centres this will attract considerable additional costs for access issues.

Needless to say, any office located in a town centre will usually have some architectural detailing.

6.5 Hotels

This encompasses a variety of buildings from modern to older traditional buildings. Whilst the BCIS average figures include for hotels it is possibly the case that many hotel developers will not wish to disclose their costs.

As hotels tend to be graded using the star system this can usually be taken as a good indication of the quality of the internal finish.

At the lower end of the spectrum many travel lodge type hotels are constructed of prefabricated units often already incorporating electrical installations and plumbing. These are brought to site and enclosed in brickwork together usually with a pitched roof system. Final connections of services are then made.

Save for the prefabricated units mentioned above many hotels will be constructed using more traditional construction. For older buildings the cost of architectural features and traditional construction methods may need to be factored in.

Bed and breakfast or residential hotels are often similar to large dwelling houses and recourse can be made to the house rebuilding costs always remembering that these already include for demolition and professional fees. Also additional allowances will be required for bathrooms.

6.6 Public Houses

Public houses arise quite often in a loss adjusting context however direct comparison with the BCIS average rates can be problematic as there are few new build public houses. Quoted examples often arise as part of retail developments.

Many pubs were traditionally owned by large breweries and have been sold off to pub companies or private ownership. Typically these include a public area on the ground floor with landlord accommodation at 1st floor level.

It may be appropriate to consider the more traditional public house as a large dwelling and utilise the house rebuilding costs. In this event it should be borne in mind that the house rebuilding costs already include fees and demolition. Additional allowance may need to be considered for pub fit out and any architectural features.



6.7 Retirement & Care Homes

There is an increased number of retirement and care homes in the private sector. Many of these buildings are new build due to the necessities of compliance with current legislation and the fact that it is generally harder to convert older buildings and meet current requirements.

BCIS include average rates for retirement and other types of care homes. In modern form such buildings are very similar to hotels possibly without some of the refinements.

Occasionally, retirement homes will be adapted from older large dwelling-houses and, in this event, recourse may be made to the house rebuilding cost guide with appropriate adjustments for additional features.

In addition, sheltered accommodation complexes are common many of these being self contained flats. In the private sector these are often 'sold' on the basis of long leases. BCIS average rates for flats can be found in both the residential and commercial data.

6.8 Churches & Historic Buildings

Traditionally, churches were not subject to the normal commercial average conditions and so the calculation of the rebuilding cost in these cases was less relevant. However, with the variety of insurances and schemes available adjusters are increasingly asked to comment on the adequacy of the sums insured on ecclesiastical buildings. Not unsurprisingly this is one of the most challenging areas and specialist assistance may be required. Also redundant church buildings are frequently put to other uses such as retail, offices or leisure.

As regards all historic buildings this presents loss adjusters with a difficulty as there is no comparative cost data. The only advice I can offer is to enquire as to how the sum insured has been calculated from which it might be determined whether appropriate allowances have been included. Needless to say, the rebuild rate will be substantially more than any conventional building.

As a final resort where the sum insured is at issue this may require an approximate estimate by a quantity surveyor.

6.9 Schools & Colleges

Many schools and colleges now effect their own insurance whereas at one time this would have been entirely under the local authority cover. Fortunately BCIS have a considerable amount of data at their disposal.

Schools range from traditional construction in a relative few cases, system buildings [common in the 1960's and 1970's] through to modern framed structures with curtain walling.

The size of schools has generally increased relative to the number of pupils in recent years. However, this factor in itself will not have had a significant effect on the average rebuilding cost rates. On the other hand, changes in construction and increased services/ fit out often to meet legislative requirements have added considerably to construction costs. Therefore it is true to say that average rates have generally increased in addition to any inflationary trends.

Secondary schools and colleges will cost significantly more per m² than primary schools usually due to the increased services installations.



The VAT position varies between schools and colleges.

Most schools are VAT exempt whilst many colleges and universities may only be able to recover in part.

In addition it is worth mentioning that BCIS provide average rates for student halls of residence.

6.10 Hospitals

These normally fall within the province of the NHS but there are now many hospitals in the private sector with superior accommodation and facilities often having much in common with hotels. The BCIS average rates provide some guidance here.



7. Suggested References

- Property Insurance Law and Claims – Chartered Institute of Loss Adjusters
- Introduction to Standard Fire Policies – Walmsley
- BCIS Rebuild Online subscription service - Calculates reinstatement cost assessments for houses and flats instantly includes all necessary specification, date and location adjustments in one calculation. Prints out tables adjusted to your specific date and property location.
Available via RICS, 12 Great George Street , Parliament Square, London SW1 3AD Tel 024 7686 8502
- BCIS Online subscription services – includes the average rebuilding rates for commercial / public sector buildings and rebuilding costs for residential properties
Available via RICS, 12 Great George Street , Parliament Square, London SW1 3AD Tel 024 7686 8502
- BCIS Quarterly Review of Building Prices – includes a summary of average rates as at the published date.
Available from RICS as above.
- BCIS Comprehensive Building Price Book.
Available from RICS as above. • Any other builders’ price book such as Spons or Laxtons