

NZVGN 2 INSURANCE VALUATION REPORTS

The New Zealand Valuation & Property Standards Board issues the following guidance note to all members of the Property Institute of New Zealand and the New Zealand Institute of Valuers.

Insurance Valuation Reports

Following on from changes to the provisions for insurance under the Earthquake and War Damage Act 1951 the NZIV revised its "Certificate of Valuation for Insurance Purposes (Buildings)".

In November 1994 the NZIV published to members a revised insurance reporting format, together with a guidance note.

The revised insurance report "Valuation for Insurance Purposes" the "definitions of insurance valuation terms" and the "Guidance notes for use of Insurance Valuation Report" are now issued to members for their use and included in this "Technical Handbook" for members' information.

Stocks of the Insurance Reports and guidance notes are available from the National Office - NZIV.

Readers should note that the Format of this insurance report is Copyright to the NZIV and IPMV.

Background

On the 1st September 1992 the New Zealand Institute of Valuers appointed a working group to review the Insurance Certificate which had been commonly used for a period of almost 20 years.

The working group was required to consider the need for a Certificate its wording and format.

Certification is no longer required but there is a need to provide a Valuation Report. The Valuation Report to which these guidance notes refer has been developed for use by members of the New Zealand Institute of Valuers and The Institute of Plant and Machinery Valuers.

The most significant changes to the former Certificate is the inclusion of Risk Management Information and the provision of market related value.

00.1 GENERAL

The most important feature of the Insurance Report is that it is a report and not a Certificate.

Valuers of both land and buildings and plant and machinery are able to use the report format.

The purpose of the report is to provide useful information for the client as well as the insurance industry and in an easily recognisable summary format.

Only those values or estimates required should be entered on the Valuation Report Form with a notation, "not required" or 'not provided" placed against the other headings, where appropriate. The intention is to allow for a range of information tailored to the needs of the insurance industry.

The opportunity exists for all valuers to liaise closely with clients so that useful and quality information will allow a decision to be made as to appropriate levels of insurance cover.

There may be instances where the information provided in standard form is insufficient to meet client requirements. In such cases a more detailed report should be provided. A report should be made available.

General Information

0.1 NAME OF CLIENT:

While this is noted as normally "the insured", there will be occasions when it is not the insured as in the case of a "fund manager". The name of the client is the actual client of the valuer, broker and insurer.

0.2 ASSET DESCRIPTION:

This will include, in the case of the plant and machinery valuations any structure housing these items. It should be noted that when valuing residential property where the floor area is less than 100 square metres as in the case of smaller unit title units, the floor area should be provided in a covering letter or within the asset description, to enable appropriate coverage under the Earthquake Act.

0.3 UPGRADE REQUIREMENTS

Major items could include, but are not limited to:

Sprinkler systems, lifts, major structural and/or machinery componentry, etc.

0.4 AGE

The estimated year of completion of the asset, not the commissioning date.

0.5 LAND CONTOUR

To ensure uniformity classification should correspond in general terms with those specified in the text, Urban Valuation in New Zealand, Volume I, 1991 by Rodney L Jefferies, published by NIIV, PO Box 27-146, Wellington, N.I.

0.6 SUB-SOIL TYPE (if known):

This information is required by Underwriters as a broad indicator of seismic stability. The perception gained from the definition can have a significant impact on insurance cost particularly in earthquake prone areas throughout New Zealand. It is important to discuss this aspect with your client and where potential penalties could arise, the insured should be encouraged to seek more detailed information from the Local and Regional Authority or engineering specialists. An entry should only be made in this portion of the report when the valuer has accurate knowledge as to the sub-soil type.

0.7 OTHER KNOWN CHARACTERISTICS:

These will include any items not otherwise covered within the report, which will be of assistance to the client and/or insurers and should only be detailed when information is known on the particular characteristics e.g. locational factors, surrounding property uses etc.

0.8 USE/OCCUPATION:

This should include a short description of the main site use, but where mixed use occurs e.g. commercial/residential, this should be recorded.

1.0 Reinstatement

1.1 REINSTATEMENT ESTIMATE:

The definition on the reverse of the report will apply but valuers should note that no specific identification is made in the Reinstatement Estimate of the cost of different materials and additional services. Should separate identification and calculation of costs be required, then this should be supplied on request as with details

on partial losses (refer reverse of report, and 0.3 of guidance notes). However any major items required as per 0.3. of the guidance notes must be shown under Upgrade Requirements.

1.2 INFLATIONARY PROVISION:

It should be noted that no allowance is to be made for any delay due to the need to comply with the provisions of the Resource Management Act including possibly the requirement to reinstate on an alternative site.

1.3 COST ESTIMATE:

In relation to the reinstatement, is as at a particular date (date of report) unless stated otherwise.

2.0 Indemnification

2.1 MARKET RELATED VALUE

If this value is required by the client, it is the value of the asset, excluding any land (Note b) on the front of the report, assuming that if appropriate, it is leased at a market rental. This would provide a similar value of the asset, as if it had been assessed in terms of the Valuation of Land Act 1951, being the added value which the asset gives to the land. As the property could be owner occupied, vacant or subject to rent review, it is considered appropriate to adopt this 'market related value' basis, and a market rental for the calculation of the value of the asset.

Should the insured wish to have Indemnity Value based on actual income then this must be stated by the valuer. This situation may arise in properties which are over or under rented, and when the client specifically requires rent recognition.

2.2 DEPRECIATED REPLACEMENT COST:

Note that this approach recognises physical depreciation only.

2.3 INFLATION PROVISION:

As detailed on the report, this would be calculated for the higher of "A" or "B" above. When only one of the two indemnification figures are being requested by the client, inflationary provision will apply to that only.

3.0 Functional Replacement

3.1 This would apply to assets unlikely to be reinstated to the same extent, or to the same

design or construction material as existing. This would be required when demand necessitates a smaller or different asset due to changes in technology, economics and other factors. Examples could be a freezing works through to a two storey retail/office building in a district where there is no demand for first floor space and would never be rebuilt. Any functional replacement assessment must be supported by a brief specification either provided by, or created in conjunction with, the client. A brief specification only is required, but if more detail is necessary this should be obtained from the client.

3.2 INFLATIONARY PROVISION:

There is also the requirement to complete the Inflationary Provision during the reconstruction period on the same basis as the Reinstatement Estimate.

- 3.3 When this basis is used, then item 1.0 on the valuation form, REINSTATEMENT, must also be shown so the difference between the two methods is shown.

4.0 Demolition Estimate

4.1 DEMOLITION ESTIMATE:

This normally assumes that the total asset to be demolished has been damaged beyond repair. A Demolition Estimate covers the cost of demolition and removal as debris of the asset, excluding the cost of removal of any noxious materials or removal of debris on adjoining premises. If allowance is required to be made for the salvage or removal of fixtures, fittings and contents, then this should be specified and referred to in an attached letter. This could also apply to undamaged plant which must be removed from the property if considered necessary.

5.0 Other matters

5.1 SITE IMPROVEMENTS:

The Reinstatement Estimate. Indemnification and Functional Replacement figures if required should relate to the assets together with other assets within 8 metres of the external walls of the main structure or such other additional areas of the site likely to be damaged during reinstatement of the asset. If further infrastructural assets are required to be estimated they should be clearly identified.

5.2 VALUER'S SIGNATURE, QUALIFICATIONS & NAME:

These are as stated. If the letterhead of the NZIV or IPMV is used, the name of the valuer's firm/organisation should also be incorporated at the bottom of the report. This would not be required if the company's letterhead is used.

5.3 VALUATION DATE:

This is the date of the report. If the effective date of the valuation is different, or the valuation date is to cover a particular period other than a normal 12 months period of policy, then this information needs to be provided.

5.4 LESSEE'S IMPROVEMENTS:

The valuation figures should exclude items installed and paid for by a lessee, unless requested by the client and detailed in the asset description. The asset description should also state whether the valuation report includes any plant or machinery.

Definitions of Insurance Valuation Terms

The following definitions pertain to and form an integral part of the Valuation on the reverse hereof.

GENERAL

Name of Client

Normally the insured.

Address

Physical location, including street address at which the assets are situated.

Asset Description

General description giving sufficient detail to identify the range of assets encompassed in the valuation including details of principal structure showing main construction materials. Any exclusions should be noted.

Upgrade Requirements

If the reinstatement estimate is based upon the use of different materials and/or additional services from those existing briefly describe the major item.

Age

Estimated year of completion and dates of any major additions and upgrades.

Use/Occupation

Nature of main activity carried out at location.

NZ VALUATION GUIDANCE NOTE 2

Contour

Valuer's classification of the land contour containing building and immediate yard areas:

- 1) Level
- 2) Gentle
- 3) Easy
- 4) Medium
- 5) Steep
- 6) Other - as specified

Subsoil Type

General classification of land supporting building and immediate yard areas:

- 1) Bedrock
- 2) Finn natural ground
- 3) Filled ground
- 4) Other - as specified

As a geotechnical survey has not been undertaken the description is without prejudice.

1.0 Reinstatement

A. Reinstatement Estimate

Is the estimated cost at date of valuation (including relevant fees) of reinstating the asset to an as new condition, including, where appropriate, the use of current equivalent technology, material and services. In the case of partial destruction no specific allowance has been made for any additional requirements that any Council, Government or other Authority may as additional expenditure to upgrade, alter or amend the undamaged portion of the asset.

B. Inflationary Provision

This amount has been estimated on the basis of a loss occurring on the last day of a 12 month insurance period, if appropriate.

The inflation provision under 1.0 and 3.0 incorporates an allowance for the additional time required for damage inspections, demolition, preparation of new preliminary proposals and their approval by the Territorial Authority, preparation of working drawings and specifications, schedules of quantities, in addition to an estimated period of construction contract. No allowance is made for any delay due to the need to comply with the provisions of the Resource Management Act.

All inflationary provisions are given without prejudice.

2.0 Indemnification

A. Basis of Valuation

(i) Market Related Value

Market Related Value is the estimated amount for which an asset leased at a market rent, if appropriate, should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.

ii) Depreciated Replacement Cost

Is the Replacement Cost at the beginning of the insurance period, reduced by factors providing for age and physical depreciation.

3.0 Functional Replacement

Is the estimated cost required to reinstate all assets to perform similar tasks but under optimum current design and lay-out conditions with capacity requirements not greater than currently available. The value of any partial loss has been disregarded in this context.

4.0 Demolition Estimate

For the purpose of valuation, it is assumed that 100% of the assets have been damaged beyond repair and have no salvage value.

Unless otherwise noted in the valuation covering letter, Demolition Estimate covers the cost of demolition and removal as debris of the assets valued only excluding the cost of removal of any noxious materials, or removal of debris on adjoining premises.

VALUATION FOR INSURANCE PURPOSES

Name of Client:

Address of Assets:

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Asset Description:

Upgrade Requirements:

Age: Use/Occupation:

Land Contour: Subsoil Type:

Other Known Characteristics:

1.0 REINSTATEMENT

A. Reinstatement Estimate

B. Inflationary Provision

2.0 INDEMNIFICATION

A. Market Related Value

B. Depreciated Replacement Cost

C. Inflationary Provision (For the higher of 'A' or 'B' above during a 12 month insurance period if appropriate)

3.0 FUNCTIONAL REPLACEMENT

Refer to valuation report/letter for the specification of the functional design

A. Functional Replacement Cost

B. Inflationary Provision

4.0 DEMOLITION ESTIMATE

VALUER'S SIGNATURE: QUALIFICATIONS:

NAME:

VALUATION DATE:

(a) All figures quoted are exclusive of Goods & Service Tax, Finance costs and other indirect costs.

(b) All figures are exclusive of any allowance for land value.

(c) This form must be read in conjunction with the definitions of terms on the reverse hereof.

(d) The information in this report has been prepared to establish insurance values and may not be used for other purposes without the written consent of the Valuer.

(e) All figures assume compliance with building regulations and bylaws.

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