

## Building Valuations - What You Need to Know

What is the value of your building? It depends on whether you are financing or selling the building, estimating its current replacement cost or actual cash value for insurance purposes, or valuing its historical cost for financial reporting purposes. The same building can have multiple values.

Appraisals are a commonly used method of determining building values. When it comes to third party appraisals, the purpose of the valuation determines the type of appraisal that is conducted. If the building is being sold or financed, a market value appraisal is conducted to determine its fair market price. If the valuation is for insurance purposes, then an insurance replacement cost appraisal is conducted.

But it is important to note that with insurance replacement cost appraisals, the valuation criteria should follow the coverage offered by the policy. Knowing the details of your policy means appraisers can correctly value your property so you are properly protected. It will ensure there are no discrepancies down the road.

### Inclusions and Exclusions

We always evaluate an independent appraisal against our property policy. Our policy includes coverage for below grade foundations, basement excavation, underground plumbing, piping and conduits, architectural fees and building code, by-law and ordinance compliance costs. Yet many of the appraisals we receive exclude these elements from the appraised value.

In order for us to accept the third party appraiser's valuation, we require that the total square footage include the below grade finished or unfinished area as well as building code compliance costs. Since we understand that third party appraisals can be costly, we encourage you to have your appraiser contact us before beginning the work.

Valuations are an essential tool, but they must be done properly if they are to have any meaning to you and your business. It is not only necessary to understand the different types of valuations that exist and the requirements of your policy, but to also understand what is happening in the construction industry.

### Current Trends in the Cost of Construction

There are many pressures facing the construction industry which has caused the costs per square foot to soar in recent years.

Labour costs are rising exponentially due to a shortage of skilled trades across Canada. Material costs have also far exceeded inflation rates over the last two years. China's growing economy created pressure on steel prices in late 2004 and 2005, which affected everything from plumbing and electrical, to structural steel and nails. As well, rising oil costs have increased manufacturing and transportation costs, and short-term shortages of materials due to natural disasters have all led to increased costs for materials.

Regional situations can also affect the overall country. The spike in construction in Alberta due to the booming oil industry, as well as the heavy demand for products created by the 2010 Olympics in British Columbia, have caused labour and material shortages in other parts of the country.

Water treatment and wastewater treatment plant construction costs have soared as provincial standards have changed over the last two or three years, and as construction costs have escalated. It will be even more costly to meet upcoming tougher provincial standards for treating water and sewage.

In the late 80's and early 90's, the Ontario Building Code made major changes in Code requirements for agricultural buildings, from what was before a largely unregulated sector. This was the beginning of major cost increases in the construction of agricultural-type buildings, which are also widely used for municipal Parks and Public Works departments.

Even something as simple as demolition and debris removal costs have increased exponentially as tipping fees have gone up in an attempt to divert materials from landfill, and environmental testing is required to dump even inert materials on non-landfill sites.

All of the factors that have caused the cost of construction to rise have also had a heavy impact on valuations, forcing them to go up dramatically.