



Insurance Cost Tracker Report Q1 2011

• COST INDICES – PROPERTY

The economy of the UK is showing signs of being at the point of crawling out of the current recession, during which the construction industry has suffered greatly with the cancellation of many building projects and a general fall in demand.

Building tender prices, which form the backbone of tracking and monitoring changes in declared values, fell by almost 12% in 2009 but increased by 2.8% in 2010. A slow upward trend of approximately 3% per annum is forecast for 2011 and 2012, driven by increases in material prices, which are further expected to rise by the general rate of inflation.

• BUILDING TENDER PRICE INFLATION 2010 – 2012 (forecast)

The current guide to tender price movements shows:-

Year	% Change
2010	+2.8
2011	+2.8 (forecast)
2012	+3.1 (forecast)

It should be noted that the use of such indices should always be treated with caution, and can only be applied to a known and reliable declared value that is supported with a valuation.

• LOCATION FACTORS

An assessment for building insurance purposes has to reflect the relative cost variances of building in different areas of the country. A location factor index system is used based on a UK mean location of 100 and different geographical areas of the UK may be at the index of 100, for example Cambridgeshire, or Cheshire at 91, or higher such as the London Borough of Harrow at 112. Extreme examples at the higher end of the scale are the City of Westminster at 129 and the Channel Islands at 145 above the norm.

Regional tender prices reflect localised variables in particular areas that can affect the cost of a building. Economic factors of supply and demand in terms of the availability of labour and materials can affect costs, as can levels of construction activity. Different regions can present diverse challenges for construction companies in respect of site characteristics, for example accessibility and topography. Costs can vary for identical buildings, depending on the region in which they are built.





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● COST INDICES - PLANT AND MACHINERY

Insurance claims statistics regularly identify that instances of inaccurate declared values are more likely in respect of production assets than property. Asset acquisitions or retirements, UK and foreign inflation rates and the sometimes dramatic impact of exchange rate differentials, often create value fluctuations year to year that are far greater than for property, especially when the asset profile comprises equipment from a range of countries of original manufacture. It is therefore important to regularly monitor such factors to ensure accurate values are maintained.

● COST AND EXCHANGE RATE FLUCTUATIONS

UK inflation ran at +4.0% for the period January 2010 – 2011, compared with +2.5% for the Euro zone, +1.6% for the USA, and 0% for Japan.

The following case study for one of our UK-based manufacturing clients illustrates the effect of exchange rate movements on the declared value. Approximately 10% of their asset base is sourced from the Euro zone and in 2008 had a replacement cost of circa €200m (GBP 147m). This had risen to GBP 193m in January 2009, but fell to GBP 178m in January 2010 and GBP 172m by January 2011. Regular reviews enable us to alert the client of these fluctuations and to

ensure that the correct declared values are maintained.



Our services cover:-

- Property
- Plant, machinery and equipment
- Heritage property
- Tenant's improvements
- Service installations
- Infrastructure
- Communications
- IT Hardware
- Valuation health checks
- Annual monitoring

● Contact Information

If you require any further information or assistance about any valuation related issue, please contact:

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