

The knowledge of value

RE:VIEW
January 2010

OUR SERVICES

Charterfields Limited has a worldwide reputation for providing insurance valuation advice and we act for a diverse range of clients and insurance professionals. Our insurance valuation service covers industrial and commercial property and plant and equipment assets. Charterfields' specialist insurance valuation team has a wealth of experience and can comprehensively advise clients and insurance professionals on values at risk in any business sector, both nationally and internationally.

Introduction

RE:VIEW is published quarterly to help insurance professionals and clients understand some of the key valuation issues relating to insurance and deals with inflation and other matters that can affect the accuracy of sums insured.

The accuracy of material values at risk is essential to protect the assets of an organisation and the interests of directors and shareholders. Under-insurance can be a major worry to most companies, with the application of 'average' often leading to reduced settlement in the event of a claim whilst over-insurance may result in excessive premiums being paid.

In this edition, we include an update of the 'Building Tender Price Inflation' data table as at December 2009, and articles relating to annual insurance programmes, the change to the VAT rate, and high-rise buildings.

Charterfields to attend BIBA Conference – May 2010

Charterfields are delighted to be exhibiting at the annual BIBA conference and exhibition at ExCel in London on 19-20 May 2010. Please come and visit us at Stand K14.



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Building Tender Price Inflation

News reports suggest the UK economy continues to be in recession, the longest since the 1950's, and since the recession began in the second quarter of 2008, the economy has contracted by 6%. The construction industry has been hard hit by the recession as contractors bid for fewer new contracts and some construction material prices have recently fallen, most notably steel prices that have reduced by about 30%. Many buildings have a high steel content, typically in structural frames and concrete reinforcement. The impact of the recession has seen downward pressure on prices and this is reflected in the building tender price index table shown. This index is the standard industry measure for monitoring current and forecasted contracted building price movements and the fall in new work output and a reduction in raw material prices have contributed to a fall in building tender prices. The forecast is for this trend to continue into 2010 with only a small recovery predicted to commence in the latter half of 2011.

Regional Prices (Revised December 2009)				
			% Change by year	Overall % change to 2006 to 2009
Scotland				
Quarter i 2006 to Quarter iv 2006	233	240	3.0	
Quarter i 2007 to Quarter iv 2007	244	260	6.6	
Quarter i 2008 to Quarter iv 2008	261	252	-3.4	
Quarter i 2009 to Quarter iv 2009 (forecast)	236	227	-3.8	-2.6
Northern (Cleveland, Cumbria, Durham, Northumberland, Tyne & Wear)				
Quarter i 2006 to Quarter iv 2006	243	243	0.0	
Quarter i 2007 to Quarter iv 2007	246	255	3.7	
Quarter i 2008 to Quarter iv 2008	258	239	-7.4	
Quarter i 2009 to Quarter iv 2009 (forecast)	224	215	-4.0	-11.5
North West (Cheshire, Greater Manchester, Lancashire, Merseyside)				
Quarter i 2006 to Quarter iv 2006	223	220	-1.3	
Quarter i 2007 to Quarter iv 2007	225	233	3.6	
Quarter i 2008 to Quarter iv 2008	233	222	-4.7	
Quarter i 2009 to Quarter iv 2009 (forecast)	208	201	-3.8	-9.9
Yorkshire and Humberside (Humberside, North Yorkshire, South Yorkshire, West Yorkshire)				
Quarter i 2006 to Quarter iv 2006	244	242	-0.8	
Quarter i 2007 to Quarter iv 2007	243	255	4.9	
Quarter i 2008 to Quarter iv 2008	257	236	-8.2	
Quarter i 2009 to Quarter iv 2009 (forecast)	228	214	-6.1	-12.3
East Midlands (Derbyshire, Leicestershire, Lincolnshire, Northamptonshire, Nottinghamshire)				
Quarter i 2006 to Quarter iv 2006	234	234	0.0	
Quarter i 2007 to Quarter iv 2007	239	248	3.8	
Quarter i 2008 to Quarter iv 2008	251	240	-4.4	
Quarter i 2009 to Quarter iv 2009 (forecast)	223	214	-4.0	-8.5
West Midlands (Hereford and Worcester, Shropshire, Staffordshire, Warwickshire, West Midlands)				
Quarter i 2006 to Quarter iv 2006	233	229	-1.7	
Quarter i 2007 to Quarter iv 2007	235	249	6.0	
Quarter i 2008 to Quarter iv 2008	245	239	-2.4	
Quarter i 2009 to Quarter iv 2009 (forecast)	223	212	-4.9	-9.0
East Anglia (Cambridgeshire, Norfolk, Suffolk)				
Quarter i 2006 to Quarter iv 2006	219	213	-2.7	
Quarter i 2007 to Quarter iv 2007	219	229	4.6	
Quarter i 2008 to Quarter iv 2008	230	217	-5.7	
Quarter i 2009 to Quarter iv 2009 (forecast)	205	199	-2.9	-9.1
South East (Bedfordshire, Essex, Hertfordshire, Kent, Surrey, East Sussex and West Sussex, Berkshire, Buckinghamshire, Hampshire, Isle of Wight, Oxfordshire)				
Quarter i 2006 to Quarter iv 2006	217	215	-0.9	
Quarter i 2007 to Quarter iv 2007	220	232	5.5	
Quarter i 2008 to Quarter iv 2008	238	223	-6.3	
Quarter i 2009 to Quarter iv 2009 (forecast)	214	210	-1.9	-3.2
London (the area forming Greater London Council)				
Quarter i 2006 to Quarter iv 2006	213	218	2.3	
Quarter i 2007 to Quarter iv 2007	219	238	8.7	
Quarter i 2008 to Quarter iv 2008	241	232	-3.7	
Quarter i 2009 to Quarter iv 2009 (forecast)	222	216	-2.7	1.4
South West (Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset, Wiltshire)				
Quarter i 2006 to Quarter iv 2006	232	236	1.7	
Quarter i 2007 to Quarter iv 2007	241	253	5.0	
Quarter i 2008 to Quarter iv 2008	257	244	-5.1	
Quarter i 2009 to Quarter iv 2009 (forecast)	232	220	-5.2	-5.2
Wales				
Quarter i 2006 to Quarter iv 2006	225	230	2.2	
Quarter i 2007 to Quarter iv 2007	235	249	6.0	
Quarter i 2008 to Quarter iv 2008	248	244	-1.6	
Quarter i 2009 to Quarter iv 2009 (forecast)	228	218	-4.4	-3.1

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High Rise Buildings

Clients responsible for insuring high-rise buildings face additional challenges compared with insuring low-rise buildings as, by their very nature, high-rise buildings have additional construction cost factors. From a valuer's perspective, careful consideration needs to be given to these additional cost factors in preparing building reinstatement cost assessments. Due to the size and complexity of building high-rise blocks, the overall duration of the build tends to be extended. This affects preliminary costs such as the hire of site accommodation, mechanical plant, small plant and tools, and the installation of temporary power, lighting and water. The availability of local labour and sub-contractors may also have a bearing on cost. High-rise buildings will likely require hoists and tower or mobile cranes for the vertical distribution of materials. Scaffolding costs are likely to be greater owing to the additional heights involved.

The costs of managing the build may also be higher owing to the scale of the operation and the building technology employed. Cost factors affecting the actual structure of a high-rise building include an increased loading on foundations necessitating more substantial foundations and the possible requirement for piling.

The structural frame will require additional bracing due to increased dead loads and, depending on the location, wind loading increases will affect the design of the frame and curtain walling elements resulting in additional costs. Progressive collapse measures have to be considered, in accordance with current building regulations, particularly relating to frame design and the scenario of a sudden structural column loss. There may be additional costs, for example, for the design of key structural frame elements such as three dimensional joints.

The need for greater vertical circulation space, typically for lift installations which tend to be larger and faster, increases in high-rise buildings and additional fire protection, for example, to service risers, has to be factored into the build cost. Sprinkler installations, dry/wet risers and complex fire alarm installations will likely be required. High-rise buildings need additional mechanical and electrical installations, for example higher capacity rising water mains and water booster kits.

For further advice, please contact Neil Warburton or Jonathan Morgan.

VAT Update

Standard-rate value-added tax is levied by HM Revenue and Customs on all goods and services supplied to commercial users, subject to a given number of exceptions. In the event of the repair or replacement of an asset as a result of a loss, liability for value-added tax on the costs of expenditure would occur. Generally, value-added tax is excluded from insurance assessments on the assumption that recovery of any tax element would be possible under normal accounting procedures. However, in some instances, value-added tax cannot be recovered, such as in the case of charities, and it can be necessary to include an allowance within the assessment.

With the VAT rate set to revert to 17.5% in January 2010, it is important that any assessments which include an allowance for VAT and which were undertaken since the rate was lowered to 15% in December 2008, are updated to reflect the higher rate. As part of Charterfields' programme of reviewing any such assessments, we have identified a number of instances where the impact of the revised rate is significant, and in the case of one client, identified the need to increase the VAT allowance by £1.5m.

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Charterfields on Tour

Charterfields' valuation team recently completed an assessment of a leading engineering group's manufacturing facilities for insurance. The instruction covered real estate, plant and equipment assets at fifty-six locations throughout the United Kingdom, Belgium, France, Germany, United States, Canada, Mexico and Peoples Republic of China, with total reported values exceeding GBP 1.5 billion.

As part of an annual programme, Charterfields monitors and updates the declared values to reflect changes to the asset base resulting from asset additions, disposals or inter-company transfers, as well as to take account of price movements or exchange rate fluctuations. We also monitor and update the group's fixed asset register data and provide annual updates.

Whilst a company may be able to estimate year on year uplifts to the declared values to reflect asset additions based on capital expenditure data, and apply an inflation factor to reflect price

movements, it is more difficult to make suitable adjustments to reflect disposals or inter-company transfers, and it is particularly challenging to make adjustments for exchange rate fluctuations without detailed knowledge about the asset base and its country of origin.

Analysis of the 2008 – 2009 data for the United Kingdom facilities shows that assets with an insurable value of GBP 25 million were added, GBP 10 million were disposed of, and ten percent of the plant and equipment assets were sourced from the Euro-zone. In 2008, these assets had a combined replacement cost of GBP 150 million, but in 2009, due to the decline in the value of Sterling, the replacement cost had risen to GBP 180 million.

For a group with a significant amount of plant and equipment assets sourced from all over the world, it can be seen how important it is, not only to monitor changes to the asset base, but also to regularly monitor exchange rate movements.

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Well Deserved Promotion!

Charterfields is pleased to announce that Jonathan Morgan DipSurv, has been promoted to Associate Director as of 1st January 2010. Jonathan has been with Charterfields for almost eleven years and having showed great competency and dedication to his role within the company, has deservedly been awarded an Associate Directorship. Jonathan's brief will be to continue to manage the property insurance business and to develop other property services across Charterfield offices.



On The Move!



As our London business continues to grow, we have taken larger offices in the City. Our new address is:-

36-38 Cornhill, London, EC3V 3PQ