

Frequently Asked Questions for Building Valuations - What You Need to Know

Q. What do I need to know about valuating my building?

A. 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 common method to determine 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.

Note that with insurance replacement cost appraisals, the valuation criteria should follow the coverage offered by the policy. Know the details of your policy so appraisers can correctly value your property and make sure you are properly protected. It will also ensure there are no discrepancies down the road.

Q. Are all appraisal valuations the same?

A. Intact Public Entities always evaluates independent appraisals 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. Many of the appraisals we receive exclude these elements from the appraised value.

In order for us to accept a 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 third party appraisals can be costly, we encourage you to have your appraiser contact Intact Public Entities before beginning the work.

Valuations are an essential tool, but they must be done properly if they are to have any meaning to your organization.

Q. What do construction trends have to do with my valuation?

A. Prices in the construction industry have caused the cost per square foot to soar in recent years.

- Labour costs are rising exponentially due to a shortage of skilled trades in Canada.
- Material costs have far exceeded inflation rates over recent years.
- China's growing economy has affected steel prices.
- Rising oil prices influenced manufacturing and transportation costs.
- Natural disasters led to increased costs for material.
- Regional demand can also affect construction costs. Alberta's booming oil industry resulted in a construction spike as did the Olympic games in British Columbia.
- Water treatment and wastewater treatment plant construction costs have soared as provincial standards changed. It will be even more costly to meet upcoming tougher provincial standards for treating water and sewage.
- Demolition and debris removal costs have increased. Tipping fees have gone up in an attempt to divert materials from landfills and environmental testing is required to dump even inert materials on non-landfill sites.

The relation between construction costs and building valuations is closely connected. As you can see, supply and demand affects costs, which in turn directly impacts a building's valuation.

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