

**September 26-29, 2024 | Sheraton Boston Hotel**



09/27/2024

**Commercial Property Valuation - I'm Getting Paid How Much?!**

3:45 PM - 4:45 PM

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1 CEU

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# Commercial Property Valuation – I’m Getting Paid How Much?!



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## Valuation

### Common Valuation Methods

- Replacement Cost
- Actual Cash Value
- Functional Valuation

### Coinsurance

- Limit chosen must satisfy coinsurance at the time of loss.
- Agreed Value suspends coinsurance.



## Replacement Cost

- The cost to repair/replace the damaged property with property/materials of like kind and quality in today's dollars - There is no deduction for depreciation.
- Replacement Cost ≠ Reconstruction Cost
  - Rebuilding something is usually more costly than building it new.
  - The policy pays to repair/rebuild the damaged part of a building/structure.
  - Setting aside the issue of depreciation, the policy pays to return the damaged part of a building/structure to its pre-loss condition.



## Replacement Cost

### ISO Building and Personal Property Coverage Form (CP 00 10 10 12)

*We will not pay on a replacement cost basis for any loss or damage:*

- (1) Until the lost or damaged property is actually repaired or replaced; and*
- (2) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage.*

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## Replacement Cost

**What if the insured doesn't have the money to repair or replace the property? Does the insurer have to pay RC?**

### *No - Tamco Corp. v. Federal Ins. Co. of New York*

The insured could only recover the depreciation holdback amount upon compliance with the rebuilding and replacement condition expressed in the policy. Until that time, explained the court, the insurer was only obligated to pay the actual cash value.

### *Yes - Coblentz et ux. V. Oklahoma Farm Bureau Mt. Ins. Co*

Insurer, by means of this condition precedent placed Plaintiffs, who lacked the financial wherewithal to replace the property, in a legal "Catch 22." Because Plaintiffs lacked the resources to provide for the loss (which was the purpose of their insurance contract), Insurer was able to compel them to accept the lower actual cash value of the property instead of the full replacement value coverage they expected and for which they paid.



## Coinsurance

**Limit of Insurance x Loss**  
**Value of Property at Time of**  
**Loss x Coinsurance Percentage**

a/k/a

**Did x Loss**  
**Should**

Agreed Value suspends coinsurance. The insurer expects that the limit chosen is correct before agreeing to include Agreed Value.



## Do BOPs have coinsurance?

Technically No, but.....

- (b) If, at the time of loss, the Limit of Insurance applicable to the lost or damaged property is less than 80% of the full replacement cost of the property immediately before the loss, we will pay the greater of the following amounts, but not more than the Limit of Insurance that applies to the property:
- (i) The actual cash value of the lost or damaged property; or
  - (ii) A proportion of the cost to repair or replace the lost or damaged property, after application of the deductible and without deduction for depreciation. This proportion will equal the ratio of the applicable Limit of Insurance to 80% of the full replacement cost of the property.

### Example

The full replacement cost of property which suffers a total loss is \$100,000. The property is insured for \$70,000. 80% of the full replacement cost of the property immediately before the loss is \$80,000 (\$100,000 x .80 = \$80,000). A partial loss of \$25,000 is sustained. The amount of recovery is determined as follows:

Amount of recovery

$$70,000 \div 80,000 = .875$$

$$.875 \times 25,000 = \$21,875$$



BP 00 03 07 13 © Insurance Services Office, Inc., 2012

BUSINESSOWNERS  
BP 04 83 01 10

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

### REMOVAL OF INSURANCE-TO-VALUE PROVISION

This endorsement modifies insurance provided under the following:

BUSINESSOWNERS COVERAGE FORM

Paragraph E.5.d. Loss Payment Property Loss Condition in Section I – Property is amended as follows:

A. Paragraph d.(1)(a) is replaced by the following:

(1) At replacement cost without deduction for depreciation, subject to the following:

(a) We will pay the cost to repair or replace, after application of the deductible and without deduction for depreciation, but not more than the least of the following amounts:

(i) The Limit of Insurance under Section I – Property that applies to the lost or damaged property;

(ii) The cost to replace, on the same premises, the lost or damaged property with other property:

i. Of comparable material and quality; and

ii. Used for the same purpose; or

(iii) The amount that you actually spend that is necessary to repair or replace the lost or damaged property.

If a building is rebuilt at a new premises, the cost is limited to the cost which would have been incurred had the building been built at the original premises.

B. Paragraph d.(1)(b) does not apply.

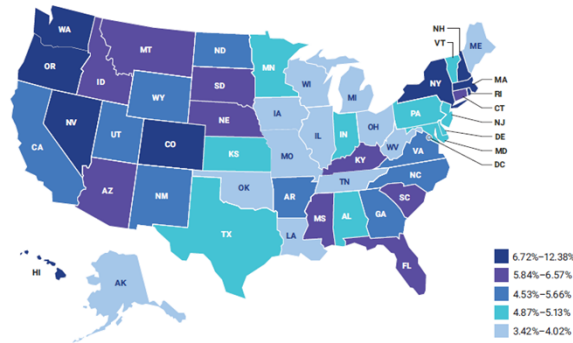


## What if values change during the term?

### Commercial Reconstruction Costs

Total commercial reconstruction costs increased 5.5% from July 2023 to July 2024 and 1.8% from April 2024 to July 2024. Commercial reconstruction costs increased by at least 3.42% in all states. As with residential costs, New Hampshire had the largest increase at 12.38%, followed by Colorado at 11.57%. Massachusetts had the third-highest commercial cost increase at 8.89%.

Changes in commercial reconstruction costs by state



## Changing Values

### Inflation Guard

- An optional coverage in the Building and Personal Property Coverage Form

| OPTIONAL COVERAGES Applicable Only When Entries Are Made In The Schedule Below |     |                     |  |        |                                 |             |                                      |
|--|-----|---------------------|--|--------|---------------------------------|-------------|--------------------------------------|
| Prem. Bldg.  |     | Agreed Value        |  |        | Replacement Cost (X)            |             |                                      |
| No.  | No. | Expiration Date     | Cov.   | Amount | Building                        | Pers. Prop. | Including "Stock"                    |
|  |     | Inflation Guard (%) | *Monthly Limit Of Bldg. Pers. Prop. Indemnity (Fraction) |        | Maximum Period Of Indemnity (X) |             | *Extended Period Of Indemnity (Days) |
|  |     | 8%                  | 8%   |        |                                 |             |                                      |

\*Applies to Business Income Only



## Inflation Guard

Policy effective dates: 1/1/24-25  
 Building limit: \$1,000,000  
 Inflation guard: 8%  
 Date of Loss: 7/1/24  
 Number of days since inception: 182  
 Limit available  $\$1,000,000 \times .08 \times 182/365$   
 $= \$1,040,000$



ISO's BOP includes an automatic 8% building limit increase that operates in the same way as inflation guard. The percentage can be changed.

## Cost Increases after a Disaster

POLICY NUMBER: \_\_\_\_\_ COMMERCIAL PROPERTY  
 CP 04 09 10 12

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

**INCREASE IN REBUILDING EXPENSES FOLLOWING  
 DISASTER (ADDITIONAL EXPENSE COVERAGE ON  
 ANNUAL AGGREGATE BASIS)**

This endorsement modifies insurance provided under the following:  
 BUILDING AND PERSONAL PROPERTY COVERAGE FORM  
 CONDOMINIUM ASSOCIATION COVERAGE FORM

SCHEDULE

| Premises Number | Building Number | Additional Expense Coverage Percentage |
|-----------------|-----------------|--|
|                 |                 | %                                      |
|                 |                 | %                                      |
|                 |                 | %                                      |

Information required to complete this Schedule, if not shown above, will be shown in the Declarations.



## CP 04 09 10 12

### Trigger:

- The event that caused the covered loss:
  - Results in declaration of a state of disaster by federal or state authorities, or
  - Occurs in close temporal proximity to the event that resulted in declaration of disaster by federal or state authorities
- Cost to repair or replace damaged property must have increased as a result of the disaster – limit of insurance is inadequate as a result.
- Insured must elect to repair or replace the building to get the additional dollars.



## CP 04 09 10 12

### The Highlights:

- Percentage on the endorsement is applied to the building limit (adjusted if needed to reflect any coinsurance penalty.)
- In determining compliance with the policy's coinsurance or similar requirement, the increase in expenses attributable to the disaster will be disregarded.
- If insured completed any improvements which increase the RC of the building by 5% or more, the insured must have notified the insurer within 30 days of completion.





## BOPs

ISO BOP offers a similar endorsement.

- Increase in Rebuilding Expenses Following Disaster  
(Additional Expense Coverage on Annual Aggregate Basis)  
BP 14 82 07 13



## Look for Insurer Enhancements

### BUILDING EXTENDED REPLACEMENT COST

This endorsement modifies insurance provided under the following:

#### SPECIAL PROPERTY COVERAGE FORM

Except as otherwise stated in this endorsement, the terms and conditions of the Policy apply.

- A. Paragraph 1. of Section C., **LIMITS OF INSURANCE**, is deleted and replaced with the following:
1. For Buildings, if the amount of loss of or damage to a Building in any one occurrence exceeds the Limit of Insurance stated in the Declarations, we will increase the Limit of Insurance to equal the current replacement cost of the Building, subject to a maximum of 125% of the Limit of Insurance stated in the Declarations.  
For Business Personal Property, the most we will pay for loss or damage in any one occurrence is the applicable Limit of Insurance shown in the Declarations.
- B. The following condition is added to Section F., **PROPERTY GENERAL CONDITIONS**:
- Building Extended Replacement Cost Conditions**
- a. If we increase the Building Limit of Insurance as outlined in Paragraph C.1., we will adjust the premium for the applicable Building from the time of loss or damage for the remainder of the policy period based on the increased Limit of Insurance.
  - b. With respect to the Building Limit-Automatic Increase provision in Paragraph C.2., the date on which the loss or damage occurred will be considered to be the date of a policy change amending the Building limit. This applies regardless of whether the policy change has been processed.
  - c. You must notify us within 30 days of completion of construction of any additions, improvements or enlargements which increase the replacement cost of a Building by more than 5%.
  - d. If you don't notify us as required by Paragraph c. above, we will apply a penalty equal to the percentage that the replacement cost of the unreported construction bears to the total replacement cost of the Building.
  - e. If you elect not to repair or replace the Building after loss or damage, we will pay no more than the actual cash value at the time of loss or damage.





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## But the bank says I have to carry.....

### State Over-Insurance Laws

#### Massachusetts - Part II Title I Chapter 183 Section 66

*A bank, lending institution, mortgage company or any mortgagee doing business in the commonwealth, when making a mortgage loan, shall not require, as a condition of a mortgage or as a term of a mortgage deed, that the mortgagor purchase casualty insurance on property which is the subject of the mortgage in an amount in excess of the replacement cost of the buildings or appurtenances on the mortgaged premises...*



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## What is Actual Cash Value?

How does the Building and Personal Property Coverage Form (CP 00 10 10 12) define Actual Cash Value?

**It Doesn't!**



## What is Actual Cash Value?

What most of us learned:

ACV = Replacement Cost minus Depreciation

My refrigerator has a useful life of 10 years.

Five years ago, I purchased my refrigerator for \$3,000.

Today, I can purchase that same refrigerator for \$2,000.

What is the RC of the refrigerator?

\$2,000

What is the ACV of the refrigerator?

\$1,000 (\$2,000 RC - \$1,000 depreciation)



## What is Actual Cash Value?

### Other Possible Definitions

Fair Market Value

- The difference between the fair market value of the property before and after the loss
- “the amount which in all probability would be arrived at by fair negotiations between an owner willing to sell and a purchaser desiring to buy.”

Butler v. Aetna Ins. Co. of Hartford, 256 N.W. 214 (ND 1934).



## What is Actual Cash Value?

### Other Possible Definitions

#### Broad Evidence Rule

May consider factors such as: market value, RC, physical depreciation, original cost, useful life factors, condition of the property, location, use, intended use, assessed value, offer to sell value, offers to purchase amounts



## Broad Evidence Rule

*Agoos Leather Cos. v. American & Foreign Ins. Co.*, 342 Mass. 603, 174 N.E.2d 652 (1961) - Massachusetts Supreme Judicial Court

*[T]he words "actual value" do not import that recovery is limited to market value.... [M]arket value does not in all cases afford a correct measure of indemnity... In some cases there is no market value, properly speaking, and in others, if there is, it plainly would not of itself afford full indemnity... [E]ven where market value will not afford the indemnity for which the ... insurance provides, the cost of replacement, less depreciation, is not conclusive as to the actual value.... But it is important evidence of such value to be considered with other evidence.... Both fair market value and replacement cost are permissible standards for determining ... losses but they are standards and not shackles.*



## What is Actual Cash Value? Some states have helped

### Example - Nebraska (IL 01 22 09 07)

*"The following is added to any provision that uses the term actual cash value: In our determination of the actual cash value of Covered Property at the time of loss, an adjustment will be made for factors such as depreciation, deterioration and obsolescence."*

### Example - Pennsylvania (IL 01 66 09 07)

*"Actual cash value is calculated as the amount it would cost to repair or replace covered property, at the time of loss or damage, with material of like kind and quality, subject to a deduction for deterioration, depreciation and obsolescence. Actual cash value applies to valuation of covered property regardless of whether that property has sustained partial or total loss or damage. The actual cash value of the lost or damaged property may be significantly less than its replacement cost."*



## You Be the Judge

### **O'Connor v. Merrimack Mut. Fire Ins. Co., 73 Mass. App. Ct. 205, 897 N.E.2d 593 (2008)**

- Insured bought ACV building coverage with a limit of \$800,000 based on his previous policy.
- Insurer inspected and determined the ACV was \$1,456,202 based on RC less 10% depreciation. Insurer insisted limit be increased to \$1.3m which the insured ultimately agreed to.
- The policy did not define ACV
- Several years later, when the limit was \$1,476,730, the property was destroyed by fire. Insurer stated amount due as ACV was \$1,146,248. Insurer based this amount on an average of various values, including replacement cost less depreciation, an appraisal based on the income approach, and an appraisal based on the sales comparison approach.
- Insured filed suit





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## You Be the Judge

**O'Connor v. Merrimack Mut. Fire Ins. Co., 73 Mass. App. Ct. 205, 897 N.E.2d 593 (2008)**

- Breach of contract claim – Insurer's initial letter and the attached Value Estimate assigned a definition and means of calculating the actual cash value of the property for purposes of the policy.

**Appellate court** - The letter could not amend the terms of the policy, particularly when the policy itself provided that its terms could only be amended or waived by written endorsement.



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## You Be the Judge

**O'Connor v. Merrimack Mut. Fire Ins. Co., 73 Mass. App. Ct. 205, 897 N.E.2d 593 (2008)**

- Promissory estoppel claim

The doctrine that a party may recover on the basis of a promise made when the party's reliance on that promise was reasonable, and the party attempting to recover detrimentally relied on the promise.

**Appellate court** - The letter and Value Estimate did not establish an obligation extraneous to the policy.





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## You Be the Judge

**O'Connor v. Merrimack Mut. Fire Ins. Co., 73 Mass. App. Ct. 205, 897 N.E.2d 593 (2008)**

Other claims rejected by the court

- Breach of the covenant of good faith and fair dealing
- Intentional misrepresentation
- Negligent misrepresentation
- Insurer violated G.L. c. 93A, § 11, a Massachusetts statute which provides redress for unfair or deceptive acts, including extreme and egregious negligent misrepresentation



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## What is Depreciated?

Estimate to replace a roof damaged in a windstorm - \$25,500

- \$10,000 labor
- \$10,000 materials
- \$4,000 overhead and profit
- \$1,500 tax

Roof has a useful life of 30 years and is 15 years old. What is the ACV of the Roof?

**It Depends**



## Labor Can be Depreciated

***Basham v. United Servs. Auto. Ass'n*, Civil Action No. 16-cv-03057-RBJ, 2017 U.S. Dist. LEXIS 118729 (D. Colo. 2017)**

"[c]overed property, such as a roof, is often the product of both materials and labor. Accordingly, repair and replacement costs comprise the cost of materials (e.g., shingles and nails), and the cost of labor (e.g., roofing contractors). Both the cost of materials and the cost of labor are therefore subject to a depreciation deduction."

***Graves v. American Family Mut. Ins. Co.*, 686 F. App'x 536 (10th Cir. 2017)**

"if American Family could depreciate only the cost of materials in determining the actual cash value of Graves' loss, she [the insured] would receive a windfall based on labor costs she never incurred."



## Labor Cannot be Depreciated

***Adams v. Cameron Mut. Ins. Co.*, No. CV-13-456, 2014 Ark. LEXIS 10 (2014)**

Supreme Court of Arkansas held that the term "actual cash value" was ambiguous, and, therefore, the insurer could not depreciate labor.

Note: In *Shelter Mut. Ins. Co. v. Goodner*, 2015 Ark. 460, 477 S.W.3d 512 (2015), the same court held that the insurer could depreciate labor. That policy expressly provided that "when calculating depreciation, we will include depreciation of the materials, labor, and the tax."





## Labor Cannot be Depreciated

***Riggins v. American Family Mut. Ins. Co., 106 F. Supp. 3d 1039 (W.D. Mo. 2015)***

The policy defined ACV as the cost "to repair or replace property with property of like kind and quality less depreciation for physical deterioration and obsolescence."

Court said "phrase 'for physical deterioration and obsolescence' limits the type [of] depreciation that may be factored into a calculation of 'actual cash value.'" Labor isn't subject to physical deterioration so can't be depreciated.



## Some Labor Can be Depreciated

***Branch v. Farmers Ins. Co., 311 F.3d 1241 (10th Cir. 2002)***

Damages in Question:

- The cost to tear off damaged shingles – Not subject to depreciation
- The labor cost of installing shingles – Subject to depreciation





## Depreciation of Labor

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No relevant case law and no regulation to address this issue.



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## Depreciation of Sales Tax

### **CA Ins. Code § 2051(b)(2).**

in the "case of a partial loss to the structure, a deduction for physical depreciation shall apply only to components of a structure that are normally subject to repair and replacement during the useful life of that structure."

*Johnson v. Hartford Cas. Ins. Co., No. 15-cv-04138-WHO, 2017 U.S. Dist. LEXIS 77482 (N.D. Cal. 2017)*

"The sales tax is distinct from the physical items and not subject to 'depreciation' or deduction



## What can be depreciated?

Things to Consider:

- What does the policy language say?
- If the policy doesn't specifically allow for labor to be depreciated, are there court decisions in the state?
- If labor can be depreciated, will pure labor items also be depreciated?
  - e.g. Debris removal vs. labor to replace siding
- Are there any state insurance department bulletins addressing the issue?



## Valued Policy Laws

- In the event of a total loss, the amount of insurance shall be considered the true value of the insured property.
  - In other words – The limit of insurance is paid.
- In most states with valued policy laws, the law applies only to real property.
- The valued policy law may apply only to certain types of real property.
- The valued policy law may apply only to damage by certain perils.



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## Valued Policy Laws

Revised Statutes - Chapter 407. The Fire Insurance Contract and Suits Thereon.

"If a building insured for a specific amount, whether under a separate policy or under a policy also covering other buildings, is totally destroyed by fire or lightning without criminal fault on the part of the insured or his assignee, the sum for which such building is insured shall be taken to be the value of the insured's interest therein unless overinsurance thereon was fraudulently obtained."



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## What do we pay for?



"But if we just replace the damaged siding, the building won't look right" says your insured.



## What Does the Policy Say?

### Building and Personal Property Coverage Form (CP 00 10 10 12)

*We will pay for direct physical loss of or damage to Covered Property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss.*



## What Does the Policy Say?

### Building and Personal Property Coverage Form (CP 00 10 10 12)

#### 4. Loss Payment

*a. In the event of loss or damage covered by this Coverage Form, at our option, we will either:*

- (1) Pay the value of lost or damaged property;*
- (2) Pay the cost of repairing or replacing the lost or damaged property, subject to **b.** below;*
- (3) Take all or any part of the property at an agreed or appraised value; or*
- (4) Repair, rebuild or replace the property with other property of like kind and quality, subject to **b.** below.*

*We will determine the value of lost or damaged property, or the cost of its repair or replacement, in accordance with the applicable terms of the Valuation Condition in this Coverage Form or any applicable provision which amends or supersedes the Valuation Condition.*

Note: **b.** below address Ordinance or Law



## What Does the Policy Say?

### Building and Personal Property Coverage Form (CP 00 10 10 12)

#### Replacement Cost Optional Coverage

e. We will not pay more for loss or damage on a replacement cost basis than the least of **(1)**, **(2)** or **(3)**, subject to f. below:

- (1)** The Limit of Insurance applicable to the lost or damaged property;
- (2)** The cost to replace the lost or damaged property with other property:
  - (a)** Of comparable material and quality; and
  - (b)** Used for the same purpose; or
- (3)** The amount actually spent that is necessary to repair or replace the lost or damaged property.

If a building is rebuilt at a new premises, the cost described in e.(2) above is limited to the cost which would have been incurred if the building had been rebuilt at the original premises.



Note: f. below addresses Ordinance or Law

## NAIC - UNFAIR PROPERTY/CASUALTY CLAIMS SETTLEMENT PRACTICES MODEL REGULATION

Section 9. Standards for Prompt, Fair and Equitable Settlements Applicable to Fire and Extended Coverage Type Policies with Replacement Cost Coverage

A. When the policy provides for the adjustment and settlement of first party losses based on replacement cost, the following shall apply:

- (1) When a loss requires repair or replacement of an item or part, any consequential physical damage incurred in making such repair or replacement not otherwise excluded by the policy, shall be included in the loss. The insured shall not have to pay for betterment nor any other cost except for the applicable deductible.
- (2) When a loss requires replacement of items and the replaced items do not match in quality, color or size, the insurer shall replace all items in the area so as to conform to a reasonably uniform appearance. This applies to interior and exterior losses. The insured shall not bear any cost over the applicable deductible, if any.



## The Matching Issue

### Fla. Stat. Ann. § 626.9744

626.9744 Claim settlement practices relating to property insurance.—Unless otherwise provided by the policy, when a homeowner’s insurance policy provides for the adjustment and settlement of first-party losses based on repair or replacement cost, the following requirements apply:

.....

(2) When a loss requires replacement of items and the replaced items do not match in quality, color, or size, the insurer shall make reasonable repairs or replacement of items in adjoining areas. In determining the extent of the repairs or replacement of items in adjoining areas, the insurer may consider the cost of repairing or replacing the undamaged portions of the property, the degree of uniformity that can be achieved without such cost, the remaining useful life of the undamaged portion, and other relevant factors.

.....



## The Matching Issue

### Wisconsin

*Farmers Auto. Ins. Ass’n v. Union Pac. Ry. Co.*, 768 N.W.2d 596 (Wis. 2009)

“Of like kind and quality” does not mean identical match. If a policy calls for “like kind and quality,” this means something that is reasonably comparable



## The Matching Issue

### Iowa

Iowa Admin. Code § 191-15.44 (507B)- Standards for determining replacement cost and actual cost values

When a loss requires replacement of items and the replaced items do not match in quality, color or size, the insurer shall replace as much of the item as is necessary to result in a reasonably uniform appearance within the same line of sight. This subrule applies to interior and exterior losses. Exceptions may be made on a case-by-case basis...



## The Matching Issue – Insurer Language

### Undamaged material

*We will not pay to repair or replace undamaged material due to mismatch between undamaged material and new material used to repair or replace damaged material. We do not cover the loss in value to any property due to mismatch between undamaged material and new material used to repair or replace damaged material.*

### Siding and/or Roofing Restoration

*We will cover reimbursement for cost to replace all of the undamaged vinyl or aluminum siding (including soffit and fascia) and/or composition shingle roofing of the building with materials of like kind and quality that are substantially similar to those materials that were damaged by a peril insured against. This coverage applies if the same siding and/or roofing material is no longer available. This coverage does not apply to mismatches caused by weathering, fading, oxidizing, or wear and tear.*

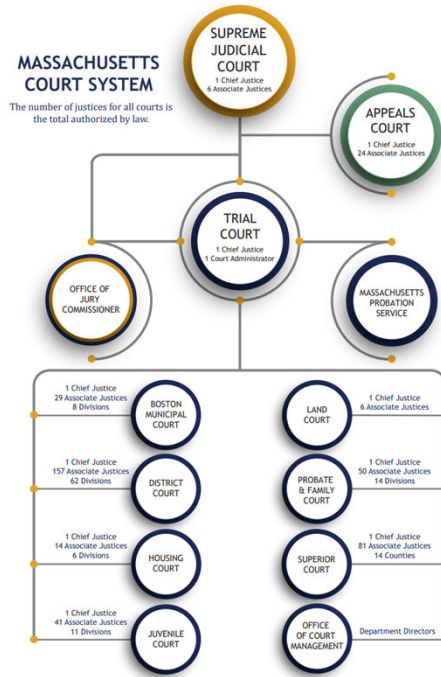




### The Matching Issue

Edelman v. Certain Underwriters at Lloyds, London, 2017-02471-F (Mass. Super. May 7, 2019)

- The Court ruled that the subject commercial policy affords coverage for the matching of all four elevations and slopes of a property’s siding and roofing.
- Case of first impression



## Functional Valuation



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## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17

- Provides means to insure a building to reflect use and not construction
- For use when an insured wouldn't or couldn't replace the building as it is
- Allows the insured to carry a lower limit of coverage if the intention is to replace the building with a less costly structure that is functionally equivalent to the existing one
- Coinsurance does not apply.



## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17

**Total loss (if building is replaced)** – Payment will be for the cost to replace the damaged building with a less costly building that is functionally equivalent to the damaged building.

**Partial loss** – Payment will be for the cost to repair or replace the damaged portion of the building with less costly material, if available, in the architectural style that existed before the loss or damage occurred.



## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17

If property isn't replaced, the policy pays the lesser of

- 1) Limit of insurance
- 2) Market value, exclusive of land, at the time of the loss  
(BEWARE!!)
- 3) Cost to repair or replace, with less costly material in the same architectural style that existed before the loss, less an allowance for depreciation



## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17

- Ordinance or Law coverage is automatically built into this endorsement.
- Ordinance or Law issues must be considered when setting limits as no additional limits for Ordinance or Law are included.
- Post-Loss Ordinance or Law Option available.
- ISO rate factor of 1.30 applies to Functional Building Valuation.



## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17 – from ISO CLM

a. Assume the following:

- (1) The building to be insured is an old, fully equipped factory building, with a replacement cost of \$2,000,000, which the insured uses as a warehouse.
- (2) The insured could build a new building to be used for the same purpose for \$1,000,000.
- (3) Substantial damage to the building (50% destruction) will trigger a local ordinance and the entire building will have to be destroyed.
- (4) Estimated cost of demolition of 50% of the building (undamaged portion) is \$30,000.
- (5) Additional cost to install sprinklers to comply with a local ordinance is \$200,000.



## Functional Valuation

### Functional Building Valuation – CP 04 38 09 17 – from ISO CLM

**b.** For purposes of illustration, the following is a possible way to develop the Functional Building Valuation Limit of Insurance.

To provide coverage for

- (1) The cost to replace the existing building with a building that is functionally equivalent ... \$1,000,000
- (2) Cost to demolish the undamaged part of the existing building after loss occurs ... \$30,000
- (3) Additional cost to comply with ordinance ... \$200,000.

Functional Building Valuation Limit of Insurance would be \$1,230,000 (\$1,000,000 + \$30,000 + \$200,000).



## BOPs

ISO BOP offers a similar endorsement

- Functional Building Valuation BP 04 84 07 13



**Thank You for Being Here!**



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