Insurance Valuations

for blocks of flats

Under insuring your property comes with its own perils as insurers may decline a claim or not pay it in full if the Buildings Declared Value (BDV) on your policy is incorrect.

Insurers require you to insure your block of flats for an amount equivalent to the total rebuilding cost, which can be very different to the combined 'market value' of all the flats in the block. Failing to insure your building for the correct value can be disastrous. On your policy documents you will see this referred to as 'the buildings sum insured' or the 'buildings declared value'.

If you under-insure the buildings, the insurers could reduce your claim in proportion to the under-insurance. For example, if you insure for 50% of the correct value, only 50% of your claim might be paid. Most policies make provision for re-building costs to increase over time, but if the original value is wrong this does not help much.

We recommend you get the buildings valued by a surveyor with experience of insurance valuations.

The valuation exercise should be repeated every three to five years, as although insurers may index-link the sum insured each year, this is based on national indices and the actual cost can vary on a regional basis. So over time your rebuild value may vary from the buildings true valuation.

We have set out some of the points that need to be considered in arriving at the correct figure over.

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Blocks of Flats Insurance

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How to calculate your Sum Insured

Most policies require you to provide a 'Buildings Declared Value' at inception of the policy or at renewal. This value is the re-building cost at the date of inception or renewal, with no provision for future inflation.

The insurers then provide an allowance (normally as a percentage of the declared value) for future inflation during the period of insurance and during any re-building period. This uplift percentage varies by insurer and is normally in the range of 25-50%. The policy is then issued for a sum insured equal to the 'Buildings Declared Value' plus this percentage.

Whilst this uplift to cover inflation is a great protection for you against future, unpredictable inflation, if the original declared value is wrong you are still at risk.

So what should be included in the 'Buildings Declared Value'?

On this point insurer wordings vary in the detail, so the comments below are for guidance only. It is these extras that can lead to serious discrepancies.

In addition to the re-building of the main structure of the premises and it's fittings you need to consider allowances for items such as:

- ☑ Outbuildings such as garages, bin sheds, bicycle parks
- ☑ Roads, paths and landscaping
- ☑ Underground pipes & sewers for which you are responsible
- ☑ Costs of removing debris after a loss
- ☑ Architects, surveyors and engineers fees
- ☑ Provision for additional statutory requirements
- ☑ Communal contents
- ☑ Leaseholder improvements to their own flats

You also need to allow for VAT. Generally new buildings are not subject to VAT, but repairs are, so VAT should be included in the figures above.

As you can see, establishing the correct sum is complex and we recommend you get a professional valuation from a valuer who is a member of the Royal Institution of Chartered Surveyors.

Once you have a correct 'Buildings Declared Value' to start the process, the value needs to be kept up to date year on year. Most insurers will have a clause in their policy that allows "index-linking" and insurers will update this figure each year in line with inflation.

They normally use a special index called the Building Costs Index Service (BCIS), as this specifically monitors building cost only. This can produce very different figures to the usual inflation index figures we are used to hearing quoted such as the RPI (Retail Price Index) or CPI (Consumer Price Index).

With this index linking it is probable that the 'Buildings Declared Value' will remain reasonably accurate over time, but we still recommend that every 3 to 5 years you revalue the property to ensure the figures are still accurate. We do see discrepancies occurring particularly where buildings are listed or have specialist (or sometimes, imported) materials. In these cases, 3 years is probably the safest maximum period to leave before revaluing professionally.

- Do not assume market value is right for the insurance purposes of a block
- Ensure all property and relevant items on the site are included
- Do not forget professional fees you will incur in re-building
- Do you need to seek professional help?
- Review your Sum Insured every 3 to 5 years – more often in periods of high inflation or if your building has unique features
- Don't forget that some people have a professional valuation and find they have been over insuring

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