



# Replacement Cost New

## Property Insurance Appraisal Report

**Month 1<sup>st</sup>, 20xx**  
*for*  
**Any Group**  
**City, Province**

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# Transmittal Letter

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[www.veri-cost.ca](http://www.veri-cost.ca)

[info@veri-cost.ca](mailto:info@veri-cost.ca)

[000-000-0000](tel:000-000-0000)

**Month 00, 20xx**

Any Group  
Avenue, Suite 000  
City, Province  
A1B 2C3

Ladies and Gentlemen:

In accordance with your request, we have prepared Replacement Cost New Insurance Appraisal Report, of certain real properties in which ("the client") has an insurable interest in ("the subject properties") exhibited to us as being that of:

**The Building**

Located:

**Avenue  
City, Province**

And submit this replacement cost new insurance appraisal report for your consideration.

In completing this appraisal we were only concerned with the Replacement Cost New of the subject properties therefore, our report must be considered a fractional appraisal, as other elements of the real property and real estate have been excluded from our consideration.

We have made no investigation of, and assume no responsibility for, title to, or liabilities against the property appraised.

Our conclusion of costs will be based on generally accepted valuation procedures and practices as set out in the Uniform Standards of Professional Appraisal Practice (USPAP).

**Purpose of the Appraisal**

Our services are being requested to assist you in establishing the insurable value of the subject property. Accordingly, in discussions with the client and our own experiences with this type of property, we have estimated the appropriate values for such a purpose, that being Replacement Cost New. This report identifies the property to be appraised, describes the basis of valuation and assumptions, explains the valuation methodology to be utilized, and presents our professional opinion.

Given the purpose and function of this appraisal assignment, intended users would include our client, and their insurance institutions of record. Unintended users, or unintended uses of this report, would be expressly denied. Possession of this report by anyone other than the named parties would not make the reader an intended user.

**Effective Date**

The appraised property is valued as of the first day in the month in which the building data is received and replacement cost new calculations occur and our report is dated as of the day of its writing.

**Report Contents**

Our appraisal report consists of a letter of transmittal, a summary report summarizing the appraisal procedures applied in our replacement cost new analysis, assumptions and limiting conditions, and a certificate of appraisal.

**Conclusion of Cost**

The conclusions presented in this report are estimates based on the data available or assembled by the appraiser. These conclusions must be considered opinions and not facts. Based on consideration of the factors indicated, and valuation procedures employed, it is our opinion that the Replacement Cost New of the appraised property as of Month 1<sup>st</sup>, 20xx is reasonably stated in the amount of:

**SEVENTEEN MILLION TWO HUNDRED SIXTY FOUR THOUSAND DOLLARS  
(\$17,264,000.)**

**Respectfully Submitted**

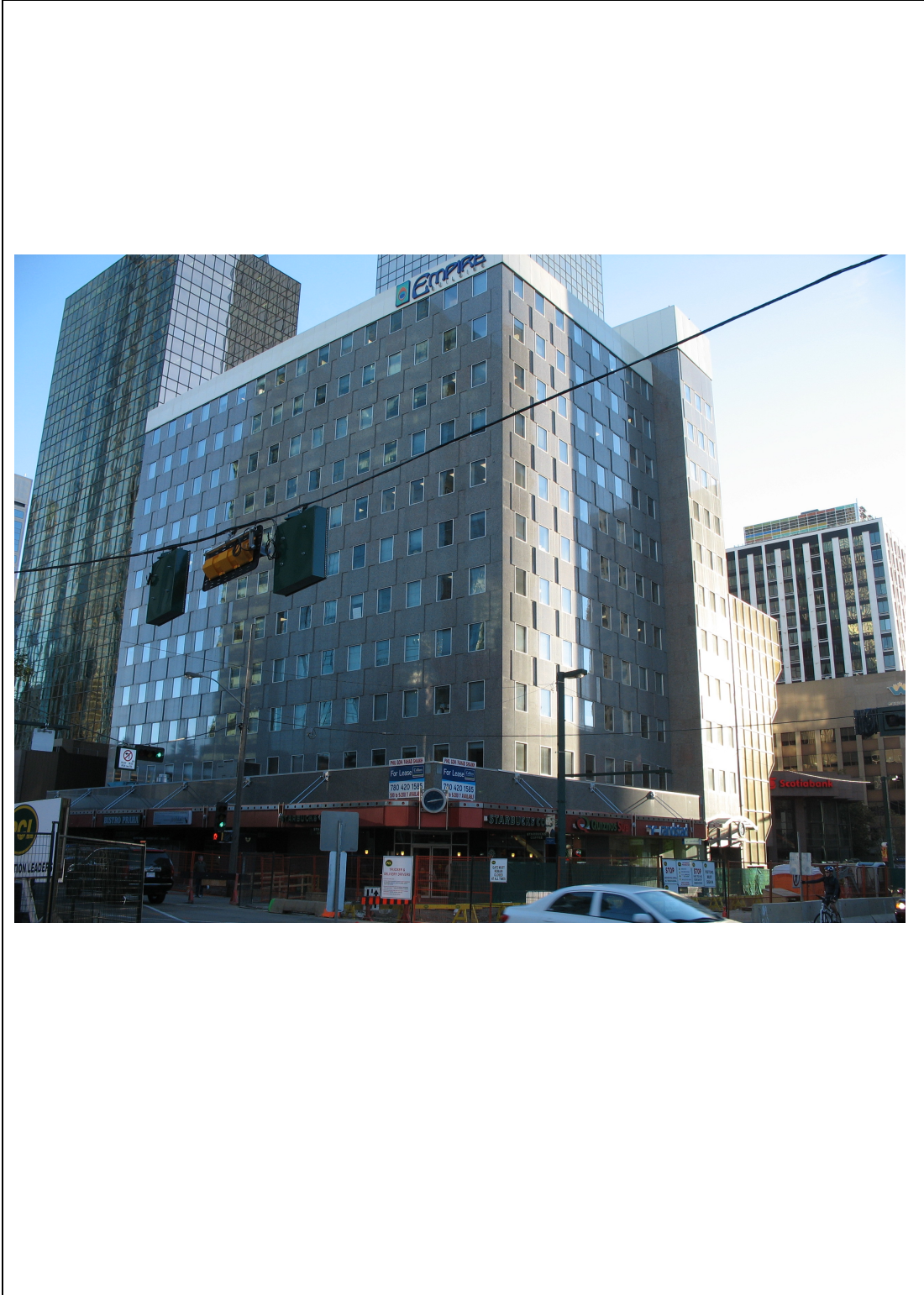
**Veri-Cost Property Appraisal Services**

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# Summary Report

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## Photographs of the Subject Property



## Property Description

The subject property appraised is a 11 storey high rise office complex of 100,000 square feet functional floor space more or less including basement.

The property is built on a foundation wall forming perimeter footings and cement floor. Exterior closure is poured concrete, and concrete framing, standard commercial windows and doors. Roof is concrete with asphalt cover, a steam boiler natural gas furnace plant heat functional floor space a/c is supplied to 95% of functional floor space. Plumbing and electrical fixtures are of standard design and quantity. Interior finish of space is standard paint or wall covering, carpeted, tiled, or wood flooring.

## Property Inclusions

The property appraised under this report generally will consist of the following:

Building Construction and Services consisting of:

Foundations	Walls
Floors	Roofs
Interior Finish	Plumbing
Sewerage	Heating
Electrical Lighting	
Fees, Permits & Taxes	Demolition & Debris Removal

## Property Exclusions

The property not appraised under this report generally will consist of the following:

Land

Land Improvements such as:

Earthwork	Utility Connections
Roadways/Sidewalks	Retaining Walls
Parking Areas	Landscaping
Property Signs	Flagpoles/Ornamentations

Also excluded but not limited to, in this report are properties as follows:

Furniture Fixtures	Office Equipment
Inventory	All Other Moveable Contents



## Definition of Cost

The definition of cost for this appraisal would be Replacement Cost New: defined as the amount (in Canadian Dollars) required to replace the property with a modern new unit. This definition assumes utilizing the most current technology and construction materials available, which will duplicate the capacity and functional utility of the subject property, while maintaining the architectural integrity of the exterior envelope and the surrounding neighbourhood. Also, current market prices for materials, labour and manufactured equipment, along with contractors overhead, profit, fees, local and national taxes.

This definition also assumes replacing the entire property at one time without provision for labour overtime, bonuses, or, for premiums for materials or equipment.

This opinion of Replacement Cost New represents the cost new of the facility, including the assembly and installation of the building construction and contents to form an operating entity.

This opinion of Replacement Cost New is not intended to represent the expense necessary to construct an exact duplicate of the subject property, considering current prices for identical components, criteria, design, arrangement, and quality.

This opinion of Replacement Cost New is not intended to represent the amount of repair or reconstruction of a damaged property.

We will also include the cost of demolition and clean up as a cost component in this Replacement Cost New.



### **Appraisers Comments**

*“The intent of this definition is to develop an opinion of the cost to construct a new building from the ground up at one time that serves the same function as the existing property. It is not intended as an opinion of the cost to reproduce the existing property in like kind and materials.”*

## **Approach to Cost**

The appraisal industry recognizes three (3) standard valuation approaches:

1. Cost Approach
2. Market Approach
3. Income Approach

## **The Cost Approach**

The logic behind the cost approach is that a prudent investor would pay no more for a property than the cost of replacement of a substitute property with the same utility as the subject. Therefore, if a property is new, the current cost of reproducing that equivalent tends to establish the cost of replacement.

## **The Direct Comparison (Market) Approach**

In this approach, the value of a property is estimated through analysis of recent sales of comparable property. It is employed in the valuation of the property for which there is a known active market.

## **The Income Approach**

The Income Approach considers value in relation to the present worth of the future benefits derived from ownership and is usually measured through the capitalization of a specific level of income that a piece of property or equipment can produce. This approach is most applicable to investment and general use properties where there is an established and identifiable rental market.

## **Approach Selection**

In any appraisal study, all three approaches to value must be considered, as one or more may be applicable to the subject property. In some situations, elements of two, or all three approaches may be combined to reach a value conclusion.

For this appraisal, our primary emphasis in concluding an opinion of value would be placed on the Cost Approach. This approach being best suited to providing an estimate of the Replacement Cost New for insurance placement purposes, as insurance premiums are normally based on replacement cost and not market value. Therefore, the market and income approaches to value will not be presented in our report; it being concluded that they would not add to the validity or credibility of the appraisal.

## Scope of Work

An insurance appraisal is a cost appraisal, that is, “the cost to replace or reproduce the property in like kind.” Construction costs are broadly segregated into the direct and indirect costs associated with the assembly of the building. Cost estimates are developed through the examination of the direct and indirect costs associated with any facility. Direct costs represent the materials and labour necessary to construct and install the components of an operating facility. Indirect costs are the expenditures not directly associated with the facility construction and can include such items as architect fees, permits, consulting fees, or any other cost item not directly associated with the development of a building site. The sums of direct and indirect costs represent the total expenditures necessary to completely build a facility.

The cost approach begins with a cost estimate of the current construction materials, and labour required in assembling a building with the nearest equivalent utility to the subject property under appraisal.

Conceptually there is a difference between the terms reproduction cost and replacement cost. They are frequently used as synonymous terms, even within the appraisal profession and since these terms are so commonly used interchangeably it might be helpful to compare the concepts of reproduction and replacement.

Reproduction cost contemplates the re-producing of a building’s design with identical construction materials and installation techniques and the replacement of building equipment with identical substitutes of the same operating capacity without regard for technological advances. The challenge in producing reproduction cost estimates increases with the age of a facility, for instance obsolete equipment may no longer be available, revisions to construction standards, and modifications to building codes and designs also present obstacles when estimating reproduction costs of older facilities.

Replacement cost is the current cost to construct and install a substitute facility with the nearest equivalent utility in comparison to the subject property under appraisal. Replacement cost represents the cost of replacing the facility with a substitute facility capable of performing the same function recognizing the effects of technological changes as well as efficiency improvements. The replacement of the appraised facility with the most economical substitute facility uses modern construction materials, installation standards, and layout configuration without necessarily duplicating the size, flow or configuration of the appraised facility.

Estimates of replacement cost involve the consideration of improvements in materials, design features, layout and construction standards between the substitute facility and the subject facility. For instance replacement cost analysis identifies the availability of substitute materials and equipment for the various original facility materials and equipment. Replacement cost analysis also examines improvements in design standards and features as well as changes in construction standards. Materials and installation improvements are also an additional factor to consider when developing replacement cost estimates, particularly when an extended period of time has elapsed between the original construction of the facility under appraisal and the substitute facility.

In completing our analysis and estimate of the Replacement Cost New, a personal review of the building component data along with current cost data was conducted by our experienced staff appraisers.

During the data collection phase we obtained information considered relevant in order to complete the appraisal assignment. Our mandate included a review of the architectural and/or construction components and building services associated with the property, the gathering and analysis of appropriate data, and the costing of the collected data as included in this report.

In conjunction with the above, we have considered, as applicable the following factors,

- Size and degree of utility of the subject property.
- Quality, type, and age of the subject property.
- Current construction technology and building systems,
- Current market prices for materials, labour contractor's overhead profit, and fees.
- Current local and national applicable taxes.

Within the cost approach there are three (3) distinct methods to develop costs.

- The Unit Price Method
- The Assemblies Method
- The Modeling Method

### **The Unit Price Method**

In a unit price method the appraiser examines the plans for a structure or, if no plans are available develops a materials quantity list from field observations. This is known as the quantity take off. These quantities are then matched to the appropriate unit prices and the unit prices are extended by the quantities. Such costs can be calculated for any part of a

construction project: materials, equipment, installation, and eventually total project costs including overhead and profit. The totals of all these costs are organized along a standard industry format that represents the total Unit Price Estimate. It is a generally accepted industry norm that estimates of this type have a plus or minus accuracy range of about (+/- 5%) five percent.

### **The Assemblies Method**

The assemblies approach to cost estimating involves the grouping of several units into components or assemblies. Essentially the assemblies' method reorganizes the unit price method into larger categories of building components. For example the many different unit price elements (concrete, rebar, forms, etc.) of a foundation are placed into a basic group and the cost of an entire foundation assembly is created. The same applies to floor, walls, roofs, and so on. It is a generally accepted industry norm that estimates of this type have a plus or minus accuracy range of about (+/- 10%) ten percent.

### **The Modeling Method**

The modeling method develops the techniques used to determine construction cost of buildings based on certain criteria such as building occupancy, location, relative size, and general materials used. The modeling method allows an experienced appraiser to develop costs from building models contained within various publications and reporting agencies, as well as our own experience with this type of property. It is a generally accepted industry norm that estimates of this type have a plus or minus accuracy range of about (+/- 15%) fifteen percent.

For this appraisal, we would utilize the "Modeling Method" to develop replacement costs new. Typically model cost references are made from the following sources.

- (Hanscomb, Annual)
- (R. S. Means Company Inc., Annual)
- (Ogershok, Annual)
- (Engineering News Record, Annual)
- (M/S Boeckh, Annual)
- (Marshall & Swift, Annual)
- Internet Based Research
- Local Construction Projects

Adjustments are then made for size, location, configuration, and additional features. The appraiser reviews data from all available sources and selects the most appropriate cost to apply to the subject property.

<b>Building Replacement Models Cost Analysis</b>					
	Empire Building	Office			
<b>Address</b>	10080 Jasper Ave				
<b>City</b>	Edmonton				
<b>Province</b>	Alberta				
<b>Floor Area</b>	Square Feet	88,000			
<b>Footprint</b>	Square Feet	8,000			
<b>Floors</b>		11			
<b>Model</b>	Cost Indicator #1	\$ 153.83	\$ -	\$ -	\$ -
	Cost Indicator #2	\$ 152.20	\$ -	\$ -	\$ -
<b>Square</b>	Cost Indicator #3	\$ 163.80	\$ -	\$ -	\$ -
<b>Foot</b>	Cost Indicator #4	\$ 170.77	\$ -	\$ -	\$ -
<b>Replacement</b>	Cost Indicator #5	\$ 183.14	\$ -	\$ -	\$ -
<b>Costs</b>	Cost Indicator #6	\$ 167.02	\$ -	\$ -	\$ -
	Cost Indicator #7	\$ -	\$ -	\$ -	\$ -
	Cost Indicator #8	\$ -	\$ -	\$ -	\$ -
<b>Model Range</b>	Minimum	\$ 152.20	\$ -	\$ -	\$ -
	Maximum	\$ 183.14	\$ -	\$ -	\$ -
	Average	\$ 152.40	\$ -	\$ -	\$ -
	Median	\$ 151.31	\$ -	\$ -	\$ -
	Weighted Avg.	\$ 167.71	\$ -	\$ -	\$ -

Regarding the subject property, variances in property elements that must be considered are building configuration (11 storey with u/g parking), building size (similar to models), and physical characteristics (materials used, lot size, site coverage).

The appraiser, based on a body of knowledge, current construction cost research and past experiences adjusts for these variances and a weighted average is concluded.

The cost indicators have a range in value from \$152.00 to \$183.00 per square foot, with an average cost of \$152.00 and a median value of \$151.00.

All factors considered, the appraiser selects \$165.00 per square foot of functional floor building area plus basement costs and other adjustments as indicated in the detailed cost calculations.

### Summary of Costs

Base Building Cost:	\$	15,240,000		
Adjustments Cost:	\$	1,524,000		
Total Building Cost:			\$	16,764,000
Miscellaneous Costs:			\$	500,000
Total This Occupancy			<u>\$</u>	<u>17,264,000</u>
0				
Base Building Cost:	\$	-		
Adjustments Cost:	\$	-		
Total Building Cost:			\$	-
Miscellaneous Costs:			\$	-
Total This Occupancy			<u>\$</u>	<u>-</u>
0				
Base Building Cost:	\$	-		
Adjustments Cost:	\$	-		
Total Building Cost:			\$	-
Miscellaneous Costs:			\$	-
Total This Occupancy			<u>\$</u>	<u>-</u>
0				
Base Building Cost:	\$	-		
Adjustments Cost:	\$	-		
Total Building Cost:			\$	-
Miscellaneous Costs:			\$	-
Total This Occupancy			<u>\$</u>	<u>-</u>
Total All Occupancies				<u>17,264,000</u>

COSTS REPRESENT GENERAL ESTIMATES NOT TO  
BE CONSIDERED A DETAILED QUANTITY SURVEY

## Details of Costs

		<u>Unit Cost</u>	<u>Unit</u>	<u>Units Total</u>
<b>Occupancy Detail:</b>	Office Hi Rise	\$ 165.00	/sq.ft	\$ 14,520,000
Basement:	Partial Finished	\$ 60.00	/sq.ft	\$ 720,000
Construction Type:	concrete			
No. of Stories:	11			
A/G Floor Area:	88,000		Sq. Ft.	
<b>Base Building Cost:</b>				<b>\$ 15,240,000</b>
 <b>Building Adjustments:</b>				
		\$ -		\$ -
Misc. Permits, Fees, Taxes	1	0.10	L.S	\$ 1,524,000.00
				<b>\$ 1,524,000</b>
				<b>\$ 16,764,000</b>
Demolition & Debris Removal:	0	\$ 500,000	LS	
<b>Total Miscellaneous:</b>				<b>\$ 500,000</b>
<b>Total This Occupancy:</b>				<b>\$ 17,264,000</b>

COSTS REPRESENT GENERAL ESTIMATES NOT TO  
BE CONSIDERED A DETAILED QUANTITY SURVEY



## Assumptions and General Conditions

The conclusions expressed in our reports are generally subject to the following assumptions and general conditions:

- Cost of financing during the time of construction will not be a consideration in this appraisal report.
- Physical descriptions, capacity and or dimensional data information, and opinions provided by others, although furnished by reliable sources and assumed to be correct, will not necessarily be verified and no responsibility is assumed for their accuracy.
- In conjunction with this appraisal, we have not reviewed national, regional or local building codes or current building permit requirements. Therefore, we will assume the contemplated replacement property would fulfill all necessary requirements.
- While expert in appraisal matters, the author is not qualified and does not purport to give legal advice. It will be assumed that:
  - Zoning is in compliance;
  - The existing use is a legally conforming use which may be continued in the event of a loss;
  - There are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except if expressly noted herein;
  - Rights-of-way, easements or encroachments over other real property and leases or other covenants if any are legally enforceable.
- Being these assumptions will be made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions.
- No test reports have been reviewed on any of the services. It will be assumed that there are no additional hidden or unapparent conditions of the construction, including the presence of asbestos, polychlorinated biphenyl and polyurethane, or other proven or potentially hazardous or toxic materials that would have a material effect on demolition and removal costs.
- Should perilous, toxic or other potentially hazardous materials exist in the buildings, the soils of the subject property or abutting lands, such could cause an increase in costs. The appraiser is not qualified to detect, test for, investigate or otherwise ascertain the existence of such substances, and assumes no responsibility relative to the possible presence of such. Further, it is beyond the scope of this appraisal to address the matter of any costs that might be associated with the detection, removal, correction or treatment in the event such substances exist on the subject or adjacent lands.

- In order to arrive at supportable opinion of cost, it will be necessary to utilize both documented and verbal evidence of replacement costs. A concerted effort has been put forth to verify the accuracy of the information contained herein. Accordingly the information is believed to be reliable and correct, and has been gathered according to procedures which are considered to be material is available for any required verification.
- The distribution of the total valuation reported between various components applies only under the existing program of utilization. The separate allocation of various components must not be used in conjunction with any other appraisal, or for other than the stated purpose of the appraisal report, and are considered to be invalid if so used.
- The value premise cited in this report are considered foundational and basic to the value opinions reported, and the right is hereby reserved by Lewin, Wright & Company to alter, revise or rescind any of these said value opinions should any subsequent or additional data be found, or in the event the conditions are modified to any extent.
- Neither the employment to make the appraisal investigation nor the compensation is contingent on the amount of the valuation reported.
- We are not required by way of this report to provide testimony before the courts, tribunals or any other legal body. Such a service will only be granted by prior written approval of Lewin, Wright & Company.
- We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings.
- None of this report may be disseminated to the public through advertising, public relations, news, or other means of communication without prior written consent and approval of Lewin, Wright & Company.
- All work files, papers or documents developed during the course of our assignments shall remain the property of Lewin, Wright & Company. It is company policy to retain this data for a period of five (5) years.

## Certificate of Appraisal

I hereby certify:

To the best of my knowledge and belief, the statements of fact upon which the analyses and opinions and conclusions expressed in this report are based are true and correct and are my personal unbiased professional analyses, opinions, and conclusions; that, this report sets forth all the limiting conditions affecting the analyses, opinions and conclusions it contains; that I have no present or prospective interest in the property that is the subject of this report and that I have no personal interest or bias with respect to the parties involved.

That my compensation is not contingent upon the reporting a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event; that this report has been made in conformity with the American Society of Appraisers and the Uniform Standards of Professional Appraisal Practice. The American Society of Appraisers has a five-year mandatory re-certification program in place. I am in compliance with that program.

I have made a site inspection of the subject property, no other person provided significant professional assistance to the person signing this report.

)  
) Data reviewed and appraised by:  
)  
) **Lawrence C. Lewin, ASA**  
) Accredited Senior Appraiser  
)  
) Month 00<sup>th</sup>, 20xx  
) Report Date



## About the Appraiser

Lawrence Lewin has been engaged professionally as a property appraiser, analyst and counsellor since 1974 and has served as an expert witness before judicial authorities and tribunals. He is a member in good standing with the American Society of Appraisers and is certified as a Machinery & Technical Specialties appraiser, with a machinery and equipment specialty. He is also certified in construction cost estimating with MS/Boeckh and R.S. Means.

His firm, Lewin, Wright & Company, has provided expertise in insurable cost studies, actual cash value analysis and in other areas related to the field of property insurance valuation. Mr. Lewin has delivered speeches on appraisal and valuation techniques in Canada.

Clients include a variety of businesses in manufacturing, processing, wholesale, retail and public sectors. Mr. Lewin provides appraisals for industrial, commercial, institutional, habitat and property contents for insurance placement.

Valuations have ranged in size beyond 4 billion in appraised value. We have had the privilege of repeat business from many of our clients.

## Appraisal Projects Completed

Replacement Cost Appraisal of a Real Estate Management Company's book of business. Over 200 ICI properties located throughout Canada. Report required for insurance placement, reporting to the director of risk and insurance.

Replacement Cost Appraisal of a Property Management Company's book of business. Over 180 residential condominium apartment and townhouse properties located throughout the Golden Horseshoe. Report required for insurance placement, reporting to the property manager.

Replacement Cost Appraisal of a Toronto area municipality's property. Report required for insurance placement, reporting to the director of finance.

Replacement Cost New insurance appraisals of more than 500 churches of every denomination throughout Canada, from modern to historical buildings and contents.

In addition to large appraisal projects we complete on a daily basis individual appraisals on a referral basis from insurance brokers, risk managers, property managers, underwriters, and the general public.

## Curriculum Vitae

<b>Current Occupation:</b>	Sole shareholder of Lewin, Wright & Company Inc. Property appraisal services.
<b>Career History:</b>	J. F. Goff & Associates: 1974 - 1976 Appraisal of machinery & equipment.  General Appraisal of Canada Ltd.: 1976 – 1983 Appraisal of machinery & equipment.  Lawrence C. Lewin: 1983-1986 Independent industrial/commercial contract fee appraiser.  Lewin, Wright & Company Inc.: 1986 - current Federally incorporated full service valuation firm serving clients on a national international basis.
<b>Professional Education:</b>	Quebec Provincial Institute: Machine Tool Application and Technology. Certified April 1973.  Boeckh Building Cost Valuation Systems: Building Cost Estimating. Model Cost Estimation Certified May 1977  RS Means Unit Price Construction Cost Estimating Certified September 2003  RS Means Model & Assemblies Estimating Certified November 2004  Uniform Standards of Professional Appraisal Practice (USPAP) Re-Certified 2011  American Society of Appraisers Continuing Education Requirements 1990 - current
<b>Professional Associations:</b>	American Society of Appraisers Accredited Senior Appraiser, Re-Certified 2011
<b>Executive Board Member – Past President</b>	American Society of Appraisers Toronto Chapter 2000 - 2010

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