

What is an insurance reinstatement value

The reinstatement cost of a property (sometimes called the Declared Value) is the amount it would cost to totally rebuild the property in the event that it was totally destroyed. So, for example, if a fire burned your property down, or if it was left in such a state of disrepair that it had to be completely knocked down and rebuilt, the reinstatement cost is the sum of money it would take to reinstate it to how it was previously including professional fees and demolition costs.

The reinstatement cost takes into consideration clearing the land of debris, labour, building materials, as well as reinstalling facilities such as double glazing and central heating. It allows for the same materials to be used as in the original property, as well as similar or the same construction processes.

What proportion of the insurance reinstatement value is apportioned to me?

This will depend on what is set out in your Deed of Conditions. Most modern Deeds of Conditions will clearly state that a block insurance policy should be in place and advise how costs should be split between owners.

Typically, this will either be an equal split or based on the floor area of your property. If the Deeds are silent, you and the other owners will need to split the costs equally or in accordance with the Tenement Management Scheme as set out in the Tenement (Scotland) Act 2004.

Why is the market value of my property different to the reinstatement value?

The market value refers to the amount you will receive if you sell your property, whereas, the reinstatement value relates to the demolition and rebuilding costs of your property. As such, the reinstatement value of your property is different to the market value. Just because your property costs £300,000 to rebuild from scratch, it does not mean that it would be worth £300,000 on the open market.

If you relied only on your property's market value and a professional reinstatement valuation is not carried out, you could not be sure that the correct sums insured are in place and you could end up under insured.

How often should an insurance revaluation be carried out?

Insurers recommend that a professional revaluation is carried out every 3 to 5 years, because although insurers may index-link the sum insured each year, this is based on national indices and the actual cost changes can vary. Over time, it means your declared value may vary from the building's true valuation. We would look to undertake a revaluation for all insured developments every 5 years.

This is detailed in Section 8.9 of our Written Statement of Services. This frequency can be amended on the instruction of a Residents' Association or a majority vote by owners.

Why is having the right insurance value so important?

If the building sum insured is too high then you are paying too much for your insurance. If the building sum insured is too low then you run the risk of not being able to rebuild your property in the event of a total loss.

Insurers never look favourably on claims where the property has not been insured for its correct value, especially in cases where the value of a property has been purposefully declared low to reduce the annual insurance premium.