



Appraisal of Historic Properties for Insurance Purposes

The National Park Service's National Register of Historic Places lists more than 80,000 properties, representing 1.4 million individual resources – buildings, sites, districts, structures and objects. Almost every county in the United States has at least one listing in the National Register.

Per the U.S. Department of the Interior, to be evaluated as a national historic landmark, a building, site, district, structure or object should, among other criteria,

- Be associated with a historic event or historically important person,
- Have architectural significance,
- Represent an idea or ideal of the American people, or
- Have the potential to provide information of major scientific importance.

A "historic building" means a building listed in a federal, state, county or municipal historical register. "Historic property" can also mean any property constructed or produced prior to the year 1940 if it has historic value to the community in which it is situated.

If a historic structure is damaged, what are the requirements for reconstruction?

According to the National Park Service, U.S. Department of the Interior, *reconstruction* is defined as "the act or process of depicting, by means of new construction, the form, features, and detailing of a non-surviving site, landscape, building, structure, or object for the purpose of replicating its appearance at a specific period of time and in its historic location."

This is mirrored in insurance policy documents, with typical extracts defining the value of a covered historical building in the event of a loss or damage as follows:

For visible features,

- If the same workmanship, building and architectural materials are reasonably available, the valuation of the repair, rebuild or replacement will be based on the workmanship and architectural materials that are reasonably available, or,
- If the same workmanship, building and architectural materials are not reasonably available, the valuation of the historical building will be based on the cost to repair or replace with workmanship, building and architectural materials that closely resemble those that existed before the loss or damage occurred.

For nonvisible building features, such as interior structural systems or mechanical systems, the valuation will be based on the cost of modern, more readily available materials and technology.

Reasonably available is defined as workmanship and expertise within 500 miles, and materials that can be legally purchased anywhere in the world.

The importance of a full-scope appraisal

Maintaining a realistic insurable value for the reconstruction cost of historic buildings can be challenging for an insured. Historical structures are often renovated and/or restored multiple times over their lifetime. These renovations are not adding value - they are just curing physical depreciation. Adding the cost of renovations to the base cost of a historical structure will exaggerate its insurable value. Also, the cost to renovate a building can actually exceed the cost to reproduce it new when all aspects of renovation costs, including the preparation/demolition costs, are considered.

Trending buildings over a long period of time is not advisable. Trends are average guides to the change in construction costs of average buildings. Once a trend is used for eight to 10 years, it will diverge from actual construction costs, and a new reproduction cost should be established using an appraisal.

The key to successful appraisal of any building is having the knowledge and experience to be able to break it down into its component parts. Applying this to historic buildings presents many challenges, including:

- Lack of plans, scale drawings or construction records
- Complex detail; elaborate or ornate design
- Materials and/or construction methods no longer in use
- Unique craftsmanship that might no longer be available
- Whether the entire structure should be considered historic, or just a portion (e.g., just the façade is historic and the remainder of the building has been renovated/replaced with modern construction)
- Inherent or built-in fine arts features (stained glass, murals, etc.)
- High-value built-in special features such as organs (church), carillons, clocks, towers, spires, chandeliers, etc.

The on-site inspection portion of the appraisal will include:

- Extensive photography
- Detailed measurement and drawing of floor plans
- Comprehensive identification and quantification of construction materials and special features

When researching the current reconstruction cost of a historic building, it is not possible to apply a simple model costing approach; a detailed segregated cost analysis is required. Cost adjustments must be made for material quality and design. Unique materials and craftsmanship are researched with industry sources. Final conclusions are then compared with similar properties to ensure they are reasonable.

Our expertise

Duff & Phelps has appraised historic properties as diverse as:

- State capitols in Minnesota, Georgia, Virginia, Rhode Island and Connecticut
- Churchill Downs
- Historic buildings on university campuses throughout North America
- The Alamo
- The Shedd Aquarium

If you have not had your historic properties appraised recently, contact Duff & Phelps to ensure that you are not overinsuring or underinsuring these noteworthy assets.

For more information please visit:

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