Insurance Appraisal Services

Presentation for: Midwestern Higher Education Compact

Duff & Phelps
Duff & Phelps
Dedicated to Delivering Value

Valuation and Corporate Finance Advisors
- More than 10,000 engagements performed in 2015
- 5,000 clients including more than 40% of the S&P 500

2,000+ Employees in more than 70 offices globally

Advisory Capability
- Valuation Advisory
- Alternative Asset Advisory
- Compliance and Regulatory Consulting
- Disputes and Investigations
- Legal Management Consulting
- M&A Advisory
- Restructuring Advisory
- Tax Services
- Transaction Opinions

HISTORY
- 1932-1994
  Duff & Phelps founded and evolves into diversified financial services firm
- 1994
  Credit ratings business spun-off
- 2005
  Acquired Corporate Value Consulting (CVC) from Standard & Poor’s
- 2007-2012
  Listed on the NYSE
  Financial advisor to examiner in Lehman Brothers bankruptcy
  Engaged by the Congressional Oversight Panel on the Troubled Asset Relief Program
  Acquired 14 complementary businesses to expand our service offering
- 2013
  Taken private by an investor consortium led by The Carlyle Group
- 2015
  Acquired Kinetic Partners and launched Compliance and Regulatory Consulting practice
  Acquired American Appraisal, significantly enhancing our global Valuation practice
- 2016
  Acquired CounselWorks to expand Compliance and Regulatory Consulting practice

Midwest Higher Education Compact
Why an insurance appraisal?

• Determine the adequacy of insurance coverage
  – Accuracy of values
  – Complete property listing – changes in facilities
  – No surprises at the time of loss
• Improved risk management
  – Consistent approach to quantification of risk
• Optimizes CAT modeling performance
• Improved marketability to underwriters and reinsurers
• Basis for preparation of a “proof-of-loss”
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Current Cost Trends - Construction

• **1986-2003** (1% to 3% per year)
  - Significant construction inflation in **2004** (10.5%)
  - Slowing but not back to normal in **2005** and **2006** (5.5% to 8.0%)
  - A definite slowing in **2007** (2.8% to 4.7%)
  - Commodities cause increases in **2008** (6.7 to 7.2%)
  - Prices fall back with economy in **2009** (-7.0 to -0.3%)
  - Inflation stabilizes in **2010** (-1.4% to +4.9%)
  - Continued stabilization in **2011** (2.5% to 4.5%) & **2012** (1.5% to 2.8%) & **2013** (2.2% to 3.7%)
  - Steady in **2014** (0.5% to 2.9%) & **2015** (0.5 to 1.9%)
  - Moderate increases in **2016** ranging from 0.0 to 1.6%
  - Slowly increasing in **2017/2018** ranging from 2 to 3%
  - Most recent 12 months seeing a larger increase upwards of 5%

**Sources cited:**
- FM Global, Industrial Cost Trends, United States Industrial Building Average
- RS Means, 30 City Average Construction Cost Index
- Marshall & Swift, Quarterly Cost Index

Midwest Higher Education Compact
Definition of Value and Methodology

Definition of Insurable Value
We will develop our opinion of insurable value as cost of reproduction new (“CRN”), defined as the estimated amount required to reproduce a duplicate or a replica of the entire property at one time, in like kind and materials, in accordance with current market prices for materials, labor, and manufactured equipment; contractors’ overhead and profit; and fees, but without provision for overtime, bonuses for labor, or premiums for material or equipment. CRN, as defined, is synonymous with the insurance-industry term “replacement cost new.”

In estimating insurable value, we will allow for national building codes; however, we will not consider any construction codes imposed by state or local municipalities, ordinances, or other legal restrictions, nor will we consider the cost of demolition in connection with reconstruction or the cost of removal of destroyed property.
Current Cost Trends - Construction

What’s driving the increase in construction costs?

• Elaborate design
• Green building features
  – Increased initial construction costs to save operational costs
• 21st century learning environments
  – Technology
• Security requirements
• Environmental issues
• Local zoning requirements
Which one costs more to replace?
What impacts replacement cost post an appraisal?

- Square footage
  - Increase/Decrease
- Upgrades to existing building elements
- Inflation
  - Materials
  - Labor
- Architecture/Design
- Location
- IT Integration
- Green Technology
- Ornate/Elaborate Features
Appraisal Approach – MHEC Program

4-PHASE APPROACH
This phased approach is designed to provide cost savings for appraisal services to each member while identifying the buildings with significant impact and exposure on the member property schedule. At the same time the approach sets forth a methodology to carry an up to date property schedule of all buildings. The 4 phases are as follows:

• Phase 1 – Diagnostic Review and Reporting
• Phase 2 – Physical onsite appraisal
• Phase 3 – Trending
• Phase 4 – Property Manager and Web-based Reporting System (eRisk)
Valuation Summary

BUILDING COST OF REPRODUCTION NEW
$61,798,000

CONTENTS COST OF REPRODUCTION NEW
$5,563,000

Date of Inspection: 09/10/2015
( $ 209.60 per SF )
( $ 18.87 per SF )

Construction Components

ISO Class: 4 - MASONRY NON-COMBUSTIBLE (100 %)
Exterior Wall Type: BRICK, ON MASONRY (85 %) , CONCRETE TILT-UP PANELS (15 %)
Heating: STEAM OR HOT WATER WITH UNIT HEATERS (100 %)
Cooling: CHILLED WATER W/AIR HANDLERS (100 %)
Roof Material: SINGLE PLY MEMBRANE (100 %)
Roof Pitch: FLAT (100 %)
Elevators: Passenger: 1 , Freight: 0

Description

Year Built: 2001
Number of Stories: 3
Average Story Height: 14 FEET
Square Footage:
Super Structure: 294,833
Sub Structure: 0
Total: 294,833

Protection

Manual Fire Alarm: Y
Automatic Fire Alarm: Y
Sprinklers: P
Entry Alarm: Y

Construction Square Feet

MASSONRY NON-COMBUSTIBLE 100 % 294,833

Exposure

Latitude: N 00-00-00.0
Longitude: W 088-19-12.0

Miscellaneous Additional Features

AUDITORIUM SEATING - UPHOLSTERED ; BASKETBALL & WRESTLING SCOREBOARD, WALL TYPE ; BASKETBALL BACKBOARDS & SUPPORTS - FOLDING ; BASKETBALL SCOREBOARD, WALL TYPE ; BLEACHERS & GRANDSTANDS - TELESCOPING ; CANOPIES ; GENERATOR ; GYMNASIUM DIVIDER ; MEZZANINE ; VERTICAL CHAIR LIFT ; WALK-IN COOLDERS & FREEZERS ; ROLL UP GATES ; ROLL UP WINDOWS ; SECURITY CAMERAS ; BAY DOORS
For more information about our global locations and services, please visit:

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About Duff & Phelps

Duff & Phelps is the premier global valuation and corporate finance advisor with expertise in complex valuation, dispute and legal management consulting, M&A, restructuring, and compliance and regulatory consulting. The firm’s more than 2,000 employees serve a diverse range of clients from offices around the world. For more information, visit www.duffandphelps.com.

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