Depreciated Replacement Cost – Consistent Methodology?

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DRC - a method of valuation, thus:

The current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

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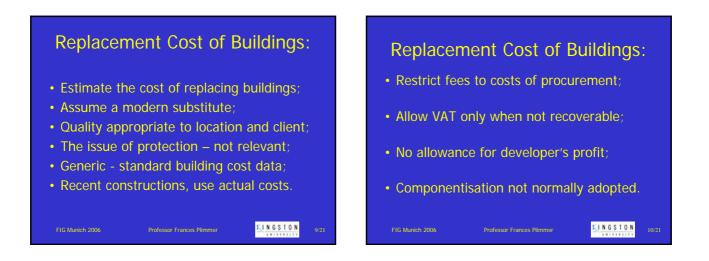


DRC:

- Is not an "exit value";
- Represents deprival value;
- · Used other methods cannot be applied;
- · Used where costs have no value in market.

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Valuing the Land: DRC - Method: Using market principles; • Principles are well understood; • Land used assumes replacement asset; the current cost of reproduction or replacement less deductions for • Surplus land valued to market value; obsolescence and optimisation. Application has lacked consistency – • Assume permission for actual use; or limited guidance in RICS's Red Book; • Assume prevailing uses -a notional site. KINGSTON KINGSTON FIG Munich 2006 Professor Frances Plimme



Adjusting Gross Replacement Costs:

- To reflect any depreciation;
- Depreciation cured by capital investment;
- Depreciation assessed by market knowledge;

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• Service life fixed in discussion with client.

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Adjusting Gross Replacement Costs:

- Adjust costs using a systematic and consistent basis;
- Adjustment to the costs:
 - Consult with client;
 - Consider possible approaches; and

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Nature of the asset.





• Methodology should be defensible and appropriate to needs of client.

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