Depreciated Replacement Cost – Consistent Methodology?

Frances Plimmer and Sarah Sayce Kingston University f.plimmer@kingston.ac.uk

FIG Munich 2006

KINGSTON

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.

Professor Frances Plimme

KINGSTON



FIG Munich 2006

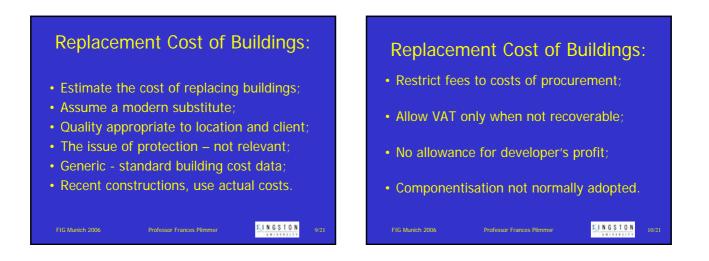


DRC:

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

KINGSTON

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;

Professor Frances Plimmer

• Service life fixed in discussion with client.

LINGSTON 11/21

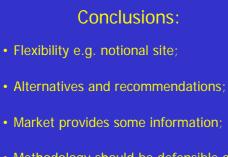
Adjusting Gross Replacement Costs:

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

Professor Frances Plim

Nature of the asset.





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

FIG Munich 2006

Plimmer KINGSTON