How to Insure Your House/Property

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Verinjaerako Kangotue

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PROPERTY OWNERS should have building insurance to ensure that their properties are fully covered in the event of damage.

For example, if a tree smashes into your property during a storm, leaving it uninhabitable for several weeks building insurance will cover the cost of the repairs.

Building insurance can be extended to cover the entirety of the property, including garages, swimming pools, boundary walls and outbuildings.

Generally speaking, there is cover against both natural and man-made disasters (e.g. fire damage, vandalism, building subsidence, leakages, car accidents, floods and falling trees, etc).

Property owners must always check their policy documents to verify the extent to which their property is covered, to ensure that the cover meets their needs.

It is amazing to see how a significant number of Namibian property owners make the mistake of insuring their property or homes for the price it will take to sell it in the market, otherwise known as the estimated market value.

To shed light on this, let me differentiate between the replacement cost and market value of a property.

I will use a specific scenario where I had valued/assessed the insurable value of a seven-bedroom property at Langstrand, Walvis Bay, a year ago.

The insurable value of this property was N$3,5 million, excluding household contents. The client was not happy with my valuation because around the same time a local estate agent advised that his house could be sold for around N$1,5 million. He argued that my valuation would result in his property being over-insured.

Market value is the price at which a willing buyer and a willing seller agree to transact a sale of this property. Market value would be determined by analysing recent sales of similar property in the market (Langstrand, Walvis Bay, in this case), while taking into consideration the current market conditions, the state of the economy and time factor.

The market value includes the whole property which is the land and all improvements such as house, garage, carport, site works, etc.

My client was confusing the market value of his property with the insurable replacement cost or insurable reinstatement value; the latter being the current cost to replace a building, or to reinstate a property to its original state if destroyed. This value normally excludes land value, and considers the value of improvements only.

The reason being that land is indestructible. The replacement cost/value is calculated by adding the estimated cost to replace the building, contractor fees, demolition cost and expenses incurred for removal of debris.

One more thing, an estate agent cannot determine a property's market value. Only a qualified and experienced professional property valuer is equipped with skills and competencies to determine the value at which your property must be insured/sold to ensure sufficient insurance cover.

It is imperative to remember that this value is estimated based on what it would cost you to demolish and re-build the house in the case of total destruction, for example, in the case of a fire or earthquake.

One would ask why it is wrong to insure one's property at the market value. Even though the property at Langstrand was in a good and safe neighbourhood and is a minute's walk from the beach, the building or the structures on this property were dilapidated and in bad state of repair with cracks running from the floor to the roof.

Certainly these defects negatively affect the market value but will not affect the replacement value. So if my client's property is insured using the market value estimated by the estate agent, it would have been under-insured by around 60%.

In the event of total destruction, it will cost approximately N$3,5 million to reconstruct the house to the same specifications, including demolition costs, debris removal and professional fees. At a sum insured of N$1,5million the house could have been under insured.

I come across many property owners who have either under or overinsured property due to the fact that they are unaware that they need to obtain insurance cover at a replacement cost and over market value. Without a clear understanding of the difference between these two valuation bases, the property owner is bound to face the obvious reality of not being able to reinstate the property in the event of destruction of the property by any disaster.

*Verinjaerako Kangotue is a lecturer in the department of land and property sciences at the Namibia University of Science and Technology.