

Replacement/Reproduction Cost New

Question:

An investor built a luxury resort in Bishoftu Town with the 500 million birr construction costs. The costs were incredibly expensive, unique technologies that likely went far beyond what the typical market participants want (even those in the luxury resort market). If valuing this property's for IFRS purpose with the cost approach, should the valuer use reproduction or replacement cost?

- A production hall has been designed and constructed for the purpose of heavy metal industry. Due to some reasons the investor changed his plan and currently use it for light industry. If valuing this property's for IFRS purpose with the cost approach, should the valuer use reproduction or replacement cost?

Unit In place method

- Example 1:

Suppose that the floor and foundations of the buildings costs Birr 2,500 per square meter; the roof costs Birr 750 per square meter; and the walls cost 1,500 per linear meter; electrical and sanitary installation costs Birr 1,500 per square meters. Notice that both the square building and the rectangular building have 400 square meters, but the square building has only 80 linear meters of walls (20m times 4) while the rectangular building has 100 linear meters of walls (10m+400m+10m+40m). Estimate the replacement cost of the two buildings.

Unit In place method

Square Building		Rectangular Building	
Foundation & Floor (@ Birr 2,500)	1,000,000	Foundation & Floor (@ Birr 2,500)	1,000,000
Roof (@ Birr 750)	300,000	Roof (@ Birr 750)	300,000
Walls (@ Birr 1,500)	<u>120,000</u>	Walls (@ Birr 1,500)	<u>150,000</u>
Electrical & Sanitary Installation @Birr 1,500	600,000	Electrical & Sanitary Installation @Birr 1,500	600,000
Total Cost	1,420,000	Total Cost	1,450,000
Cost Per m2	3,550		3,625

