



Now More Than Ever: The Importance of Insuring Your Home to Value



This era of the “Great Recession” has been a challenging one. Dramatic economic conditions have affected both the U.S. real estate market and the residential construction industry. National data collected over the past year indicates extreme financial decline, with property market values plunging up to 40% in some areas, permits for new construction down by 36.9%, and foreclosure rates spiking across the country. Ironically, the costs to rebuild and repair a home are not declining at this same rate. Overall construction costs actually increased approximately 1.3% nationwide from January 2009 to January 2010.*

As a homeowner, you may be perplexed by the gap between the current market value for your home and the replacement cost listed on your homeowner’s insurance policy.

Market value vs. replacement cost

Market value (the price at which your home may sell today) is not the same as *replacement cost* (the price to repair or rebuild your home if it is severely damaged). When rebuilding a home, contractors must work with and match existing materials, which requires skilled labor that costs more. Plus, when a contractor rebuilds a single home, there are no economies of scale. The cost to rebuild is always higher than the initial cost to build. Market value includes factors such as the quality of the local school system and popularity of the neighborhood and, therefore, is not a good indicator of the proper amount of insurance coverage for your home. The estimated replacement cost for your home, however, is a significantly more reliable indicator of the appropriate coverage limit needed in the event of a major loss.

Key factors that contribute to rising construction costs

- Varied spikes in building material costs throughout 2009 and expected for 2010-2011.
- Fluctuating energy costs.
- A 3% increase in the cost of skilled labor from 2009-2010.
- Increased demand for imported raw materials and building products.
- Anticipated rise in inflation for 2010.

Factors that can affect home replacement cost

- **Contractor Fees.** The typical contractor fee is 15-20% of the overall building cost or even more for larger, more ornate homes.
- **Architectural and Related Fees.** Fees for architecture, interior design, engineering, and other related services should be included in the home replacement cost. These fees can add another 10-15% to the overall building cost.
- **U.S. Environmental Factors.** Natural disasters such as hurricanes in coastal regions, floods in the Midwest, and wildfires in the West have contributed to shortages of building materials and overall cost increases. Building codes are continually enhanced following these natural disasters, which can increase the replacement cost of a structure.

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- **Green Construction.** The trend to build “green” is gaining momentum and popularity with consumers. Building with ultra-efficient technology has contributed to rising construction costs that are 15-20% more than traditional construction.
- **Rebuilding Custom and Historic Homes.** The materials used to reconstruct custom homes or restore historic homes are more expensive than those used to build average homes, due to finer quality and the fact that specialized homebuilders buy these materials in relatively small quantities. Also, fewer craftsmen specialize in custom construction and historic renovation, and greater demand for these specialists has led to increased skilled labor costs.

How Chubb calculates replacement cost

To help determine replacement costs for the homes that we insure, our nearly 120 U.S. in-house appraisers are in regular contact with approximately 4,000 contractors, restoration specialists and high-end homebuilders throughout the country. Our construction cost pricing captures local differences for rebuilding homes by region, city or even within a neighborhood. Since actual rebuilding costs vary across the country, Chubb does not use national construction cost averages to calculate the expense to rebuild custom or older homes.

Insuring your home to value

In order to help ensure that your homeowners coverage keeps pace with rising rebuilding costs, contact your agent or broker to:

- Make sure your Chubb replacement cost appraisal is updated every 3-5 years.
- Maintain your policy's annual inflation guard so your coverage is in line with construction cost increases.
- Report any significant home remodeling projects or upgrades, and make any necessary coverage changes.

Complimentary home appraisal service

Chubb can offer a complimentary in-home appraisal to help make sure you are prepared in the event of a total loss to your home. A Chubb appraiser can visit your home to note architectural details and interior features, then estimate the replacement cost. The findings are compiled in a home appraisal report, which enables you, together with your agent or broker, to select the appropriate amount of insurance coverage. Appraising luxury homes for more than 25 years, Chubb has the largest and most experienced appraisal department in the industry. Our appraisers visit more than 43,000 homes worldwide each year.

*Sources: *Engineering News-Record*, Marshall and Swift/Boeckh, RSMeans, and Reed Construction Data, 2010.



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