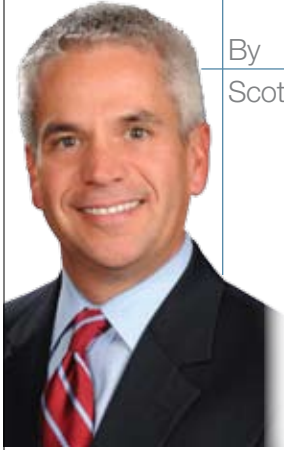


## Property/Casualty



By  
Scott Spencer

When it comes to rebuilding or repairing a home after it has been damaged, the whole is more than the sum of its parts. I doubt Aristotle was thinking about insurance to value when he first said this, but it applies to the cost of rebuilding a home.

Home prices remain low as the worldwide economy struggles to recover from what has been called the Great Recession. Unemployment in the United States is hovering around 10%, and many homeowners

are looking for ways to cut their expenses. Some may be tempted to look at their homeowners insurance. A common belief is that if a home's market value has dropped, then its insured value and, therefore, insurance premiums should be lower, too.

But many homeowners do not consider the difference between market value (the price at which a home may sell today) and replacement cost (the price to repair or rebuild a home if it is severely damaged). While home market values indeed have dropped, in some places significantly in the past few years, the cost to repair or rebuild homes continues to rise moderately.

In the past year, home values declined more than 4% nationally, but overall construction costs rose 1.3% from January 2009 to January 2010, according to Marshall and Swift/Boeckh. Several factors are contributing to the rise in construction costs.

After the housing market bubble burst, building contractors began slashing their prices by cutting their

overhead and profit to win contracts. After some time, many contractors simply went out of business, and there was no longer an abundance of contractors competing on price for home renovations and repairs. While many contractors are still willing to reduce their profit and charge less, they are less likely to negotiate on price when an insured loss is involved.

When a contractor rebuilds a single home, there are no economies of scale as there would be with a typical housing development.

Other factors that have contributed to rising construction costs include:

- Rising costs for building materials, such as copper piping, PVC pipes, natural stone and steel beams.
- Fluctuating energy costs, which can affect shipping costs for building materials.
- A 3% increase in the cost of skilled labor from 2009 to 2010.
- Increased demand for imported raw materials and building products.
- Anticipated rise in inflation.

Additionally, 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.

Agents and brokers can help make sure their customers' insurance coverages keep pace with rising construction costs. A replacement-cost home appraisal should be updated every three to five years, and the policy's annual construction cost adjustment should be maintained. Significant home remodeling projects, renovations, upgrades or additions should be documented and reported to insurance carriers, since they will likely affect insurance coverage.

The role of insurance is to make homeowners whole again after a loss. But if the sum of the parts doesn't add up, a homeowner can be left feeling empty.

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# Aristotle Was Right

The cost to repair and rebuild homes continues to rise, even as home values fall.

Many homeowners do not understand or consider the difference between a house's market value and its replacement cost.

Audio: Roll over icon for content



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