

Replacement Cost Case Studies

Northeast Area

At Chubb, we know successful individuals and families work hard to turn their house into a home, and we want to make sure it always feels that way, even if they need to repair, replace, or rebuild. That's why we complete a home assessment on the properties we insure. This helps us make sure clients have enough insurance to rebuild their home—including its unique characteristics and finishes—in the event of a covered loss.

The following example demonstrates how a home assessment helps ensure that Chubb can restore all the details that make a house a home in the unfortunate event of a loss.

Fire Results in a Home's Total Loss

A fire broke out in a single-family residence, resulting in a total loss. The 6,000-square-foot home included typical finishes such as granite countertops, high-end appliances, hardwood and tile floors, wood siding, and an asphalt shingle roof. Firefighting efforts also caused damage to other structures besides the home, including the pool and surrounding area, gazebo, retaining walls, and driveway—all of which will need to be replaced.

Valuation History*:

- **2005:** \$1,900,000—Replacement Cost established (\$302/sq. ft. for living area)
- **2020:** \$3,618,000—Coverage at the time of the loss (\$575/sq. ft. for living area)
- **2021:** \$4,068,000—Reconstruction estimate

* Construction Cost Adjustment Factor is applied annually.

It is possible that reconstruction costs could exceed the home's policy limits once completed, even with annual adjustments to the value on the policy to keep pace with inflation. Fortunately for our clients, Chubb offers Extended Replacement Cost, so our clients can rest easy knowing that they will be in a better position to restore their home to its pre-loss condition.

Market Value/Real Estate Indications:

- **2020:** \$2,261,000 (Zillow)

The loss occurred at a time when the construction market was volatile and unpredictable, and labor and materials costs for reconstruction were at unprecedented highs. Even after application of Chubb's annual Construction Cost factors, which are designed to help insureds maintain adequate coverage at each policy renewal to address inflation of construction costs, the estimated costs of reconstruction did not fully reflect the costs that would be needed to rebuild the home like new again. Luckily, Chubb offers Extended Replacement Cost, and the policy included limits sufficient to restore the home to its pre-loss condition.

Replacement Cost and Market Value are different concepts. While Market Value is influenced by factors like the number of homes on the market, recent sales in the area, and location, Replacement Cost represents the actual cost of rebuilding a home as is, with the same level of detail and finishes. That number is based on characteristics of the home, current and projected material and labor costs, architect and contractor fees, and building code upgrades.

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