

Home Replacement Cost Explained By Basil Housewright

Have you received your homeowner's insurance policy renewal only to discover your insurance company has raised the limits insured for your dwelling and contents again? Most major carriers will automatically raise these limits every year. This is done in an attempt to provide proper insurance to replacement value. Maybe you have even discussed this issue with your insurance agency and are still confused why these limits need to be so much higher than what you personally feel is adequate.

Proper insurance to replacement value is one of the most important considerations in insuring property. To assure your home is insured properly the estimated replacement cost of your home should be reviewed at least on an annual basis. Your insurance agency should be able to provide this service for you. Most agencies have a system to estimate current replacement costs developed by Marshall & Swift/Boeckh, which is the nationally, recognized experts on replacement cost estimates for homes and commercial buildings. Cost factors are typically updated no less than quarterly.

Marshall & Swift/Boeckh programs calculate the minimum estimated replacement cost based on:

- * Local Labor
- * Square Footage of Dwelling
- * Heating & AC Systems
- * Potential Debris Removal
- * Architect Fees
- * Local Material Costs
- * Construction Type
- * Additional Features/Enhancements
- * Foundation Excavation & Replacement
- * Structural Engineering Fees

To rebuild a substantially damaged home is much more expensive than to build new because debris must be removed before repairs can be made. Where as in new construction there is no debris removal to consider. The cost to remove debris is considered in the estimated replacement cost estimate because it is covered under the dwelling limit on your homeowner's insurance policy. Comparing estimated replacement cost to current local new construction costs is not a good comparison either because new homebuilders typically are building many homes at once, which allow economies of scale. They purchase large quantities of materials giving them discounts and share labor on several homes, which allow for lower labor costs per home. A contractor performing repairs or reconstruction typically will not have these economies of scale available. Reconstruction is often completed by contractors who specialize in rebuilding as opposed to new construction contractors. Their specialized labor tends to be more expensive. The exception to this would be in the event of a catastrophic event with many homes damaged, however when this takes place historically material costs go up quickly and sharply. It is the old supply and demand factor.

Worksite access is easier for brand new construction. For reconstruction, obstacles such as neighboring homes, trees, lawns, fences and other landscaping prevent easy site access. This makes it difficult to transport materials and can drive up labor costs. Changes to building codes may require costly updating, even for undamaged parts of a home. This could include updating wiring or other utilities and is costly, especially for older homes. Keeping a partially destroyed home from further damage until permanent repairs can be made adds to the overall cost. This could involve covering a damaged roof or holes in walls.

Many compare the replacement value of their home to the current market value, or what you could sell your home for in the current real estate market. This is not an accurate comparison because if your home is substantially damaged the repairs will be made at current labor rates and materials costs, using new materials and including debris removal. Market value is what you can purchase a used home at in the current real estate market, which is not an indicator of cost of neither new construction nor reconstruction.

Some say, “Well if my home burned to the ground, I would not rebuild I would just walk away and buy another home elsewhere.” You should consider when you purchase a home in a developed area, such as a City or Subdivision there are laws and deed restrictions which mandate as the property owner if your home suffers a catastrophic loss you, as registered owner will be responsible to take measures to comply with the laws or deed restrictions which will typically include cleaning up the debris. Therefore you will incur debris removal and purchasing another home.

The replacement cost estimator programs does not consider the value of your land. It is considering your dwelling only. Many insurance agencies utilize data on your home, which can be retrieved from the county's tax appraisal database available on the Internet. This information provides your homes square footage, type and materials of construction and features. If there are errors in this information you would be well served to inform your insurance agency so they can make adjustments where necessary.

Most major insurance companies will require you to insure at 100% of the current minimum estimated replacement cost to qualify for the insurance companies best rate plan. If you insure to less than 80% of the estimated replacement cost you risk the situation of co-insurance clauses within the insuring agreement (policy) being triggered. Basically these co-insurance clauses if applicable will result in you incurring not only the deductible if you have a loss but also incurring co-insurance penalties which will have you sharing a percentage of the loss amount above your deductible. The amount of co-insurance penalty should be specifically described in the insuring agreement.

The weak real estate market of the past few years has driven down home prices substantially. This means the estimated replacement cost of your home has also gone up while home sales prices have decreased substantially in the past few years. While your overall homeowner insurance premium may be increasing, it may not be totally due to rate increases. It may be due in a large part to the fact you're purchasing more insurance on your home to keep up with increases of the estimated replacement costs. It is advisable to insure to at least the minimum estimated replacement cost. You should even consider insuring above the minimum. If your home were substantially damaged wouldn't you like to rebuild it back to the size and quality it was? For the typical homeowners insurance policy purchased, the insurance policy limit is the maximum the insurance company will pay on your claim. For most families your home is your single most important and most costly investment, therefore it would be wise to assure you're adequately insuring it. It would be very disappointing if you were to suffer a total loss of your home and you had to take out a second loan to finish rebuilding your home because you did not have enough insurance. Total losses do occur. Remember the homes going up in flames during the recent wildfires on the evening news.

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