

Insuring Homes to Rebuilding Cost



Value is in the eye of the beholder.

For years, insurance professionals used the term “insurance to value” when determining the amount of coverage needed to insure a home. But much like beauty, “value” is in the eye of the beholder.

Our customers sentimental value of their homes may be more than the price they paid for it, or more than the price to build it new, or more than the asking price of the house down the street.

There's no doubt you know what you paid for your home or what homes in their neighborhoods are selling for, they may not know about today's reconstruction (not new construction) processes and costs.

In 2022, premium prices were influenced by supply chain disruptions, material and labor shortage, derecho, pandemic and inflation.

Insurance to Rebuild

The Starr Group focuses on the cost to rebuild a home and, therefore, the cost to realistically and adequately insure it.

Consider these real-life examples from our files:

- Wisconsin: A fire destroys a home built in 1908. The insurance policy provided \$573,000 of coverage. The cost to rebuild the home, however, was more than twice that amount at \$1,289,000.
- Illinois: A 2002 home was destroyed in a tornado. While the home was insured for \$331,000, the total cost to reconstruct it was \$540,000.
- Minnesota: A home built in 1999 was also destroyed by a fire. It was insured for \$573,000 but the cost to rebuild it totaled \$822,000.

Reconstruction costs determine insuring the home to rebuilding cost.

Reconstruction cost is what it would cost to rebuild a home using a design and materials similar to the original home. This amount could be (and usually is!) much higher than market value of the home.

Several factors determine the cost to reconstruct or replace a home. All of them are important.

- **Age of the home:** If the home was built more than 40 years ago, it's possible it was built with construction materials not used today (for instance, plaster instead of drywall). It may also have included features that aren't typically used in new home construction anymore, like ornate moldings, custom doors, and unique-size windows.





- **Building codes:** Depending on when the home was originally built, there's a very good chance building codes have changed. Rebuilding the home as it was, while following current building codes, can pose challenges and add to cost.
- **Demolition/debris removal:** When a home is destroyed by fire or a tornado, construction can't begin until the debris is first removed. This adds more to the cost.
- **Accessibility:** It may also be hard for the contractor to get access to the home and lot. New homes are usually built in new neighborhoods with open lots that make it much easier for large construction machinery to get in and out. If the home is in an established neighborhood, there are other homes, trees, and landscaping to contend with. It adds to the time needed for construction.
- **Top down, not bottom up:** When a new home is built, construction starts at the foundation and moves up. When a house has been damaged, but not destroyed, the roof is often removed and the house is rebuilt from the top down. This is more time consuming and labor intensive.
- **One versus many:** When constructing a single home, the builder doesn't have the discount advantage that typically comes with buying materials in large quantities, as builders do when constructing several homes at a time.
- **Custom features:** The custom features that were built with the home, or added later, can add to the cost of reconstruction: Custom cabinets in the kitchen, the home theater in the basement, the stone patio. Reconstructing the home with custom features adds up.

These are just some of the factors that can affect the cost to reconstruct a home. It's important to consider all of them when realistically determining the insured value of a home.

In recent years, one carrier paid 18 home claims that exceeded \$300,000 each. In every single loss, Coverage A was insufficient to provide full reconstruction of the damaged home. The average difference between Coverage A and the reconstruction cost was nearly \$97,000, more than 20% above the average Coverage A of the homes involved in these claims. These 18 customers were very grateful their agents placed them with a policy that provided Guaranteed Replacement Cost coverage without a cap. Ask us about Guaranteed Replacement Cost coverage.