



HOME MARKET VALUE VS. REPLACEMENT COST VALUE

Many people equate the value of their home with what it would sell for in the current market. Market value fluctuates based on non-economic, (and non-insurable), considerations that make a home attractive to buyers—location, school district, local tax base, neighborhood crime statistics, and the availability of similar homes on the market.

In contrast, your homeowners policy coverage is based on the cost to replace or rebuild the home in the event of an insured loss. Replacement cost includes all the construction components necessary to repair or rebuild your home with like kind and quality of materials used in the original construction. The market value and replacement cost value may be quite different for your home.

Replacement cost includes a wide range of expenses including:

- Architect and engineering fees
- Construction labor
- Demolition costs
- Designer name brand items
- Interior designer fees
- Materials of like kind and quality
- Permits
- Specialty interior finishes

Historic and custom homes often have hand-crafted construction features, materials that are no longer in common use, and custom materials and designs. These factors can further impact the replacement cost of your home.

In fact, the cost to replace or repair a home is often more than the original cost. You may incur demolition costs before the rebuild can begin. You may also need to comply with current building codes. (For example, the rebuilt home may be required to comply with current earthquake building codes.) In addition, contractors lose their economies of scale, (buying in bulk and scheduling subcontractors), when rebuilding a single home. The cost of energy efficient and green materials, commodity prices, (gas to transport materials), and the cost to expedite the project, (materials delivery and labor), also play a role in the replacement cost. And finally, in the event of an area-wide catastrophic event, supply and demand will have a huge impact on both the availability and cost of materials and labor.

What can you do to be certain that you are adequately insured for replacement cost of your home? Your Account Manager and your insurer can help you determine the replacement value based on the square footage, construction materials, and special features of your home. Your insurance company may inspect your home to determine the replacement cost and document custom features. Many insurers increase home limits at renewal to keep pace with the current rate of inflation. And finally, don't wait to report renovations and additions. Let your Account Manager know about them as they occur so that your policy limit can be increased accordingly.