Determining Home Reconstruction Costs Is A Partnership Of Insurer And Homeowner, Says The I.I.I.

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TAMPA, February 16, 2012 - Failure to recognize the widening gap between what a house would sell for today and what it would cost to rebuild tomorrow could leave Florida homeowners underinsured. That is why homeowners should work with their insurance company to determine the correct level of insurance protection, according to the Insurance Information Institute (I.I.I.).

As real estate values have plummeted, homeowners who look only at the market value of their home while discounting the reconstruction costs may find themselves dangerously underinsured. Why? Because even though real estate values have dropped, reconstruction costs have not.

Property insurance companies use computer software and other programs to estimate the reconstruction costs of a home in order to determine the approximate cost to rebuild it following a disaster like a hurricane, tornado or fire. Homeowners should work with their insurance company to understand rebuilding costs estimates and select the appropriate amount of insurance coverage. Homeowners also should be aware of their options should they disagree with their insurance company's estimates.

Costs of residential construction have risen in eight of the past 10 years, rising nationally by 3.3 percent in 2010 and 5.9 percent in 2011, driven by rising prices for raw materials and fuel. Additionally, weak demand over the past several years has slowed down production of building materials, such as gypsum used for drywall, with price increases expected.
Florida law requires all insurance companies to offer a policy at replacement cost value. Some companies do allow homeowners to choose less than full replacement cost, however.

"If insurance covered less than reconstruction costs, it is likely that thousands of Florida homeowners would face huge out-of-pocket costs in order to rebuild after a hurricane," said Lynne McChristian, Florida representative of the I.I.I. "Homeowners do have options if they disagree with a reconstruction estimate from their insurer. The first step is to ask their insurer for a line-by-line review."

Another option for those who question the reconstruction estimate is to hire an appraiser. If a home was recently financed or refinanced, the homeowner will have already paid for an appraisal and is entitled to a copy. "Keep in mind that an appraisal is for market value, not rebuilding costs, but almost every appraisal contains an estimate of replacement cost, and that's what you need," said McChristian. "The appraisal numbers are typically very conservative, so your insurance should exceed that amount and take into consideration any changes in building codes that are required for reconstruction."

Some homeowners ask local building contractors for reconstruction estimates, but McChristian cautioned against relying on those estimates alone.

"Contractors who build new homes are usually not the same professionals involved in reconstruction," she said. "Reconstruction contractors deal with the intricacies involved in the insurance claims process, and they know there are scenarios that may drive up the costs. One cost that new construction contractors may overlook in their pricing is the cost of debris removal, which can be significant following a major catastrophe given the environmental considerations for waste disposal."

"Above all, remember, it's your home," said McChristian. "Ultimately, it's your responsibility to make sure..."
you have the right coverage to rebuild it?

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