

UNDERSTANDING HOME REPLACEMENT COST

THE HOUSING MARKET HAS SEEN SOME DRAMATIC CHANGES IN THE LAST 10 YEARS. WHY HAVEN'T REPLACEMENT COSTS FOLLOWED SUIT?

THE FACT IS A HOME'S MARKET VALUE IS NOT A KEY FACTOR IN DETERMINING ITS REPLACEMENT COST.

Market values are based on factors such as location, condition of neighboring properties, prevailing interest rates, local market conditions and even property taxes. None of these influence what insurance really covers: the home's replacement cost. This is defined as the cost to rebuild a home exactly as it is now, in its current location, and using the same materials and workmanship. And despite a severe economic downturn, the cost of building has shown few signs of decline. Even in areas of the country hardest hit by the housing market, building costs are increasing.

AN UPWARD TREND

Our Claims & Risk Services staff have observed that replacement costs in the marketplace remain flat, while high-end home construction expenses continue to rise due to:

- Unique finishes – such as imported tiles, custom cabinetry, and the availability of skilled labor to install or reproduce highly customized finishes
- Ultra high-end items – including premium plumbing fixtures, media rooms, and custom interior design features
- Premium appliances – costs for high-grade or commercial appliances have increased 100% in some instances

In 2012, growth in global demand for labor and material increased residential construction costs by an average of 2.3%*.

EXAMPLES OF MATERIAL AND LABOR COST INCREASES INCLUDE:

Material	2012 Increase
Plywood	19.5%
Drywall	16.9%
Lumber	9.7%
Asphalt Shingles	5.4%
Re-bar	3.6%
Ready-mix Concrete	1.7%
Concrete Block	0.8%

Labor	2012 Increase
Plumber	2.2%
Electrician	1.7%
Carpenter	1.6%
Plasterer	1.6%
Roofer	1.6%
Painter	1.5%
Bricklayer	1.4%

THE EXTRA COSTS OF REBUILDING

In addition to the current upward trend in basic building costs, rebuilding a home is almost always more expensive than constructing a comparable new one.

Local ordinances often place regulations on demolition that increase expenses sharply. In general, rebuilding sites are much less accessible than a vacant lot when it comes to moving and storing materials and equipment. Additionally, builders usually can't buy supplies at volume discounts when working on a single home.



Labor is harder to find and more expensive with reconstruction than with new construction. Contractors favor new home projects because they are more predictable and have fewer hazards than rebuild projects. Rebuilding costs are also affected by the expense of additional liability and workers' compensation insurance to cover the hazards of demolition and debris removal. Because of the complexities of rebuilding, it generally takes longer. Time, as they say, is money.

HISTORIC PROPERTIES

Historic homes can be particularly costly. Rebuilding costs for homes in designated historic neighborhoods can run anywhere from 10% to 25% more than for other projects. This is because the skilled craftspeople needed to duplicate vintage features or artistry are expensive. Also, contractors must conform to strict historical preservation guidelines and materials can be difficult to replace.

HOW WE LOOK AT COSTS

Our Claims & Risk Services staff continually monitor rebuilding trends such as labor, material and equipment costs (known as hard costs), plus mark-ups, taxes and other soft costs, on reconstruction work performed for Fireman's Fund policyholders.

ABOUT FIREMAN'S FUND

Since 1863, Fireman's Fund has partnered with independent agents and brokers to protect the future for individuals, families and businesses. We've helped rebuild cities, insured major construction projects and managed risk for the world's most popular films.

Today, we are an industry leader in high net worth, entertainment and green insurance. Backed by superior claims and risk services, we're there for our customers before, during and after they incur a loss. We are a member of the Allianz Group – one of the world's largest property and casualty insurance providers – and have a strong financial foundation.

Fireman's Fund began with a promise to support firefighters in their mission to make communities safer. We continue this tradition by contributing a portion of our profits to fire service organizations across the United States.



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