

# Determining Your Home's Insurance Value



**C**ongratulations! Purchasing your newly-constructed home will undoubtedly be one of the most rewarding, yet somewhat confusing, financial decisions you'll face in your lifetime. Aside from qualifying for a mortgage, you will also be dealing with an attorney/title agent, Realtor and insurance agent, hoping that all the pieces fall into place. Part of the process is determining the value at which to insure your home. You may be questioning why there is a difference between what you paid for your home and the insuring value.

When purchasing a newly-constructed home, most Policyholders consider the purchase price of the home as the amount of coverage needed for their insurance policy. After all, the home was just built and except for the cost of the lot, the purchase price should accurately reflect the cost to build the house. While this does seem to be a reasonable and practical approach, insuring a newly-built house for its "construction cost new" may not provide an adequate amount of coverage to reconstruct that same house in the event of a severe loss.

Regardless of a home's age, when rebuilding a home with severe damage there are costs associated with reconstruction that are not part of the original construction costs. As a result, these reconstruction costs need to be included in the insurance value to ensure adequate coverage to completely rebuild the house.

## Economies of Scale

**New construction:** New homebuilders often realize great savings in the mass purchasing of building materials. Contractors may be building many houses at the same time and can purchase

materials in bulk at cheaper prices. Most of these materials will be commonly used throughout all the homes they are building.

**Reconstruction:** A reconstruction contractor rebuilding a single home typically will not receive these savings. Materials for the job are unique and specific to the home and, therefore, are usually more expensive due to the lack of mass purchasing power.

## Open Job Site

**New construction:** Most new home construction starts with an open area and no major encumbrances that will hinder the construction process.



**Reconstruction:** Before any reconstruction can begin in an existing home, debris from the damages must be removed. In recent years, the cost to remove debris has increased, therefore increasing the cost to rebuild the home. When removing debris, contractors must work without damaging existing driveways,

landscaping, utilities, septic systems and any undamaged portion of the house that may be remaining. The time and expense to work around these obstacles adds to the cost of the overall project.

## Homeowner Involvement

**New construction:** In many instances, the construction of a new home has little or no homeowner involvement.

**Reconstruction:** During reconstruction, there is significant homeowner involvement. Naturally, the homeowner wants the house rebuilt just right and will interact regularly with the contractor. This

interaction with on-site inspections, decisions and input into the reconstruction can add time and expense to the project.

## Overhead and Profit

**New construction:** A contractor building a new home will figure into the construction cost the allowances for overhead and profit. Overhead is fairly predictable because of the high repetition involved in building new construction. Profit must be reasonable because the contractor still has to sell the house.

**Reconstruction:** The costs to reconstruct a home are less predictable because of the unknowns associated with reconstruction. Contractors may not receive complete information about the total scope of the work. To compensate for this unpredictability, restoration contractors will build into their costs a higher charge for overhead. Also, when a contractor is reconstructing a home, there will usually be a higher profit margin built in. These increases are passed along to the homeowner and insurance company.

## Planning

**New construction:** New home contractors typically work in a pre-established timeframe and are working with favorable time periods for scheduling work crews and subcontractors. Usually new construction is very well planned and well orchestrated.

**Reconstruction:** A reconstruction contractor must work in a more restrictive time frame in

reaction to an unplanned event. There may be increased costs because work crews and subcontractors are working on shorter notice and tighter schedules. In order to get the family back into their home as soon as possible, there is a certain urgency to complete the construction. Therefore, there is an increased cost associated with these timelines.

## Building Codes

**New construction:** During new construction, homes are built to the building codes in force at the time.

**Reconstruction:** Over time it is not uncommon for building codes to change. Most changes to building codes deal with using better quality building materials or better construction techniques. These changes in building codes often result in increased costs that now must be part of the reconstruction. Costs for building fees and permits will also increase over the years.



## Wages

**New construction:** New construction uses the common labor trades such as masons, framers and plumbers.

**Reconstruction:** Restoration contractors who are acting as renovation specialists can command higher wages because they are working in a damaged and more dangerous work site.

*Your ERIE Agent has the tools available to help you determine the amount of coverage needed to protect you in the event of a loss to your home. Call today for more information.*



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