

The Atlanta Journal-Constitution

Insider Perspective

Information, advice and expert opinion from those in the real estate industry.

Decreased home value doesn't reduce insurance

With home values continuing their slow and steady decline, many of my clients want to know why their homes are insured for more than they paid for them.

Questions like this are an everyday occurrence in today's market place. Surprisingly, while home values continue to decrease across the country, construction costs have remained flat, or are climbing. Even though annual increases are slowing, construction costs rose 3.9 percent in the past 12 months, according to Engineering News-Record.

The truth is a majority of U.S. homes — 58 percent — are underinsured.

It is critical that homeowners understand there is very little if any correlation between the market value of the home and the replacement cost of the home.

A recent study by Marshall & Swift, a building data research firm, concluded that approximately 58 percent of U.S. homes are underinsured by an average of 21 percent. Many building experts attribute this to the fact it costs up to 30 percent more to rebuild a house than to build new. Why?

- Economies of scale: New homes built today are generally part of a housing development. Contractors are able to purchase supplies in bulk or at a discounted rate. When a contractor must rebuild a single home, there are no economies of scale.

- Changing code requirements: A reconstructed home may require the contractor to



Matt Miller
 Matt Miller is a broker with Marietta-based Sterling Risk Advisors who specializes in property and casualty insurance for individuals and companies. www.sterlingriskadvisors.com

meet new building codes put into place after your home was originally built.

- Environmental factors: Recent natural disasters in the United States and globally have contributed to shortages of building materials and overall cost increases.

- Fluctuating fuel costs: We've all experienced how this can impact a budget.

Ultimately, these factors and many others have led to the gradual increase in recon-

struction costs. Homeowners who decide to dismiss this reality could one day find themselves greatly underinsured. Here are five tips to avoid this pitfall:

- Take ownership of your home: Your home is yours. It is not your insurance agent's or your insurance company's. Take the time to understand the limits and coverages provided by your policy.

- Get the best replacement cost coverage: Many companies cap the limit of coverage either at your dwelling amount or a percentage above the limit. Some carriers offer full guaranteed replacement cost coverage. If available, buy it. This coverage binds the insurance company to replacing your home, even if the eventual cost is higher than the limit on your policy.

- Do your homework: Online services like AccuCoverage are available for homeowners to compute the reconstruction costs of their home. Services like these can be another resource in addition to the calculation that you and your agent find.

- Find an agent you can trust: You should understand your policy and if your agent doesn't have the time to answer your questions or provide you with relevant information, find another agent.

- Don't be cheap: Agents know that a low premium is important to everyone. Make it known that the most appropriate and best coverage is important to you.

ABOUT INSIDER PERSPECTIVE

The AJC solicits diverse views from leaders and trendsetters in real estate and related industries. This feature is meant to shed light on the different facets of the industry, and the views expressed, naturally, will reflect the individual's unique experience.