

## [Explaining to Homeowners Reconstruction Costs Versus Other Valuations](#)

CoreLogic

The source of this article is a business that provides services to the insurance industry. According to a recent CoreLogic Natural Hazard Press Release, the 2018 Camp and Woolsey Wildfires in California caused devastating losses between \$15 and \$19 billion. Because a home is most often a complete loss when it comes to wildfires, the destruction caused by these catastrophic events has been a personal and financial tragedy for many families. These and other natural hazards have forced Insurance Carriers to reevaluate the need for more accurate insurance coverage to better ensure their policyholders can be made whole again if a natural disaster should destroy their property. The consequence of underinsurance can affect the mortgage industry as well. Many times, if a homeowner doesn't have enough insurance coverage to rebuild, they simply walk away from their mortgages. According to a recent Loan Performance Press Release, Dr. Frank Nothaft, chief economist for CoreLogic said, "The effects of 2018's natural disasters have begun to show clearly in our delinquency data." The report shows areas affected by natural disasters have seen an increase in delinquency rates while other parts of the country are experiencing a steady decline. While there is an increased focus within the Insurance and Mortgage industries on making sure ITVs (Insurance to Values) are more accurate, property insurance agents and carriers often receive questions from homeowners who don't understand the difference between reconstruction cost values (insurance coverage) and market or appraisal values. Below are three of the most common questions property owners ask after receiving a quote from their agent or carrier. Q: Why is my homeowner's insurance coverage more than what my house is worth? A: Many homeowners assume the cost to rebuild a property should be equal to what they paid for the property. However, insurers determine reconstruction cost values (RCVs) using sophisticated residential estimating tools that deliver RCVs at today's prices. Reconstruction cost value is the cost to replace or rebuild a home to original or like standards at current material and labor costs within a certain geographical area. Meanwhile, a home's market value is the price a consumer is willing to pay for the home. To illustrate this, Home A and Home B have similar property characteristics. Yet, due to the dilapidated condition of

Home A, it has little to no market value. But to an insurer, the cost to rebuild both homes may be about the same (excluding site access, regional differences and land). HOME A - Distressed Home Year Built 1930 Square Footage 1300 Market Value \$30,000 Reconstruction Cost Value \$145,000 HOME B - Well Kept Home Year Built 1930 Square Footage 1300 Market Value \$130,000 Reconstruction Cost Value \$145,000 Q My home is new, so why is the reconstruction cost value higher than what I paid for my home? A: CoreLogic research has shown that reconstruction cost values average close to 12 percent more than new construction costs. This is because newly constructed communities can benefit from material discounts and labor efficiencies that a contractor rebuilding a home does not have. These factors can add up and include variables such as: Restricted site access Restricted utility access Site improvements Permits/fees Working restrictions Delivery access Security concerns Work interruptions To be properly covered, a home should be insured for the amount it will cost to rebuild the home at current prices for building materials and labor costs, including constructing it to comply with current building codes. Q: Can I use the appraised or assessed value to determine my insurance coverage limits? A: Replacement Cost New (RCN), a term generally used by the assessor and appraisal industry, is not recommended to determine the cost to rebuild a home. This is because RCN is based on the cost to build, at one time, an entire building of equal utility, quality, features, and finishes with neither the contractor nor property owner being under duress to have it done in a shorter time frame. Building codes, as well as the prices used for labor, materials, overhead, profit, and fees are those in practice at the time the valuation was written and may not be current. RCN's also use modern building methodologies and materials and don't consider the cost of rebuilding an older home using period specific materials. Additionally, RCNs do not take into consideration the following costs usually associated with rebuilding after a catastrophic event: demolition, salvage of marketable building components, debris removal, extraordinary fees, site accessibility or premiums for materials and labor. © 2019 CoreLogic, Inc. All rights reserved.