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Elevated costs to build can present gaps in insurance - by Koch and Travers

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Rising building costs don't just make real estate construction more expensive, they can also put property and business owners at risk of having gaps in insurance coverage. As the price for materials and labor increases at unprecedented rates due to the pandemic and supply chain issues, it can have a significant impact on insurance because it's not possible to fix or rebuild real estate at pre-pandemic values with today's higher construction costs. This means a business owner may not be made whole after a loss and could be in jeopardy of significant financial strain. That's why regular property valuation assessments are vital to ensure adequate limits are in place in case of a loss.

Since the pandemic started, the cost for many building materials increased, and it's not just material that increased. Construction labor costs also jumped in 2021 due to worker shortages, consumer demand, supply chain issues and increases in the frequency and severity of catastrophic events.

How Construction Cost Increases Affect Insurance

Because construction costs have increased, it can also mean that business owners may not have adequate insurance coverage. Therefore, if a business sustains property damage, they might only have coverage for part of the rebuild due to the higher priced materials. Shortages of skilled and unskilled labor in the roofing, plumbing and electrical trades are compounding prices and adding to the difficulty in acquiring materials and durable goods. This significantly affects the insurance industry's response on claims and losses in construction and may hinder business recovery.

Understanding Insurance To Value

The best way to make sure a business is adequately insured is to know the property value. It's important for business owners to perform regular property valuation assessments, known as insurance-to-value, which can give business and property owners peace of mind after a loss. If there's a major loss, the coverage amounts in a business' policy might not be enough to cover replacement costs at today's prices. Having an accurate assessment of the complete cost to replace the insured property can be the difference between recovering quickly or incurring additional loss from delays in repairs.

Help With Asset Valuation

For business owners, determining the value of assets is not always a fast and easy process, especially considering the price fluctuations with building materials and construction labor. However, having an insurance agent or broker work with an experienced insurance company can help alleviate any complicated situations.

At The Hartford, risk engineering specialists know the ins and outs of many industries. They understand the unique risks and challenges those businesses face and can work to help with the asset valuation process by providing important insights, which can then assist in establishing more accurate replacement values. The Hartford's risk engineering professionals track replacement costs on a quarterly basis, and during times of more rapid cost fluctuations, they access several industry data sources that track material and component pricing. By using that data to assist in property replacement cost valuation, The Hartford can make sure business owners have adequate insurance-to-property value and better protect their facilities.

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