

DECONSTRUCTING CONSTRUCTION COSTS FREQUENTLY ASKED QUESTIONS ON REPLACEMENT COST

01

What is Replacement Cost?

Replacement Cost is a reconstruction cost estimate, or the amount of money that it would cost to rebuild your home in the event of a total loss. We factor in the cost of hiring an architect, designer, and builder, and paying for their profit and overhead. We also consider the unique and special features of your home and the cost to replace them with like kind and quality in today's dollars.

02

How is Replacement Cost calculated?

Our Risk Services consultants are experts in the field of replacement cost valuations. They use a variety of data sources, including:

- Marshall & Swift/CoreLogic data, an independent cost guide that provides regionally specific, quarterly updates on the cost of building materials.
- Statistics Canada data and publications.
- Claims data from our Northbridge colleagues who handle and pay out claims.
- Contractor Interviews – We survey independent builders and request insight on current construction costs and trends.
- Altus Group Cost Guides.
- Douglas Cost Guide.
- iClarify Replacement Cost data.
- Property Tax Data (e.g. MPAC, BCassessment) for info on square footage and permits.
- Independent Research & Pricing Projects – Our consultants regularly research the Manufacturer Suggested Retail Price (MSRP) of materials that our clients purchase for their homes, such as imported fixtures from New York or the UK, the latest technology in home automation, or the cost of professional grade appliances.
- Proprietary Cost Caliber Guides – We use the above information to develop and maintain cost caliber guides for specific areas of the country and types of homes.
- Material & Market Trends – Our consultants keep apprised of climate and natural events (e.g., pandemics, lockdowns, forest fires, infestations, increase or lowering of trading tariffs, etc.), as well as political/financial events (e.g., tariffs/regulations) that could have effects on costs and the availability of materials.

Why is the Replacement Cost different than what I paid to build or buy my home?

There are various valuation concepts associated with any particular house and they can vary greatly. They include:

- **Replacement Cost** – the cost to rebuild the house
- **Building Cost** – the original cost to build the house
(*Note: Rebuilding is almost always more costly than building, due to inflation, time constraints, contractor availability and desire for the job, markup to the insurance company, economies of scale, etc.*)
- **Market Value or Appraised Value** – the expected purchase/sale price of the home on the open market, based on current market conditions and comparable recent sales
- **Assessed Value** – the value of a home determined by the local tax authority, and used to calculate property taxes

A Victorian-era house in a rural area may have a replacement cost of \$1,000,000, a market value of \$750,000, and an assessed value of \$500,000.

A new house built as part of a builder's subdivision in a suburban area may have a building cost of \$500,000, a replacement cost of \$750,000, a market value of \$1,250,000, and an assessed value of \$1,000,000.

What about price fluctuations and abnormal shortages?

The replacement cost of any structure can be impacted by pricing instability, driven by several factors:

- **Supply shortages** – Consumer demand, production challenges, or business failure can lead to material shortages and higher costs. Lumber products are particularly susceptible to shortages due to international demand and finite supply. The recent boom in home renovations in North America has contributed to record year-over-year increases in the price of lumber. Contractors are reporting an inability to source materials from their suppliers, and lumber thefts from construction sites has become a much more common occurrence.
- **Labour shortages** – A project manager's inability to find and retain skilled labourers, as well as specialists capable of reconstructing custom and unique homes, can cause project delays and increased costs. Project managers may need to offer premium wages to attract skilled trades during hard market periods.
- **Consumer demand & trends** – Consumer appetite for “trend” items may impact availability and prices, whether it is a single item purchase or a full scope project. For instance, the recent demand for swimming pools in North America has resulted in shortages of all aspects of pool design, installation, and maintenance. Pool pumps and liners, chlorine, contractors, designers, and lumber for associated decks and fences have all become difficult to source.
- **Fuel costs** – Fuel costs may affect local and global shipping costs, as well as the prices of petroleum-based products such as asphalt roofing and some plastics.
- **Shipping & logistical issues** – Regional and global shipping may be impacted by historical considerations such as import and export tariffs and disputes, or acute issues such as shuttered warehouses, accidents or issues while in transit, or high order volume.
- **COVID-19 protocols** – Social distancing and on-site labour capacity restrictions, together with government mandated shutdowns, and the added cost of personal protective equipment may increase reconstruction costs. The average time to complete a project could increase, resulting in overall higher costs due to extended permit fees, insurance, equipment rentals, etc.

For more information, contact our Risk Services team at **1.833.692.4111** or visit us at www.nbins.com