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February 2010

Insurance to Value: Homeowners Beware

Housing values have plummeted throughout the United States.

The pace of existing-home sales dropped more than 8 percent from January 2008 to January 2009, reported the National Association of Realtors. Home values declined for 76 percent of all U.S. homes during 2008, estimated Zillow.com. And housing prices have fallen in 70 percent of all metro areas over the past several years, according to Moody's Economy.com. What's more, the rate of new-home construction is now at its lowest in 50 years, noted the U.S. Census Bureau and Department of Housing and Urban Development.

What's *not* going down, though, is the cost of rebuilding and repairing houses. Construction costs rose by more than 4 percent between 2007 and 2008, according to a report in *Best's Review* magazine citing Reed Construction Data figures.

Rising reconstruction prices are contrary to the economic news of recent months. And it's contrary to consumers' expectations that lower home values should mean lower homeowner's coverage is needed.

What's more, homeowners are already cutting back on insurance expenses. Nearly one in four households already have changed their insurance coverage in the past year to reduce costs, according to a recent survey by the Independent Insurance Agents & Brokers of America (the Big "I") and local Trusted Choice® member agencies.

With these conflicting pressures, what should a homeowner do? The first thing: Recall what homeowners insurance is designed to do.

Insurance should "make whole" the policyholder after loss or damage to the home from an unforeseen event such as a fire, lightning strike or windstorm. In the case of rebuilding a home, "making whole" means rebuilding the same or

similar structure.

When a home is damaged or destroyed, there are several issues that factor into its repair or replacement cost:

- Debris must be removed and discarded.
- Lumber, concrete, and other building materials are in demand on the worldwide market, even if demand is slumping in the United States.
- Building materials are purchased for just one home, not on a large-scale basis as for most housing developments.
- Fuel costs, a big part of construction costs, are higher than just a few years ago.
- Natural disasters in the U.S. have left a shortage of building materials and labor in certain areas.
- Homeowners want to get back into their home as quickly as possible, and speed drives up costs.

Please call our office if you would like more information about the difference between market value and replacement cost.

