



MJ INSURANCE
SORORITY DIVISION

December 1, 2009

Re: Economic influence on building values

By: Cindy H. Stellhorn, Vice President, MJ Insurance, Inc.

Current global economic conditions are greatly impacting everyday life in this country. Individuals and businesses are carefully reviewing all discretionary spending. The natural inclination is to assume that there is a corresponding decrease in construction costs during this economic time. There has also been a decrease in market values of properties, as much as 30 percent in some parts of the country. Some property owners are questioning whether or not they should be reevaluating the replacement cost value of the sorority chapter house.

Contrary to popular belief, however, while some property market values continue to plummet nationwide, construction costs remain strong and are even on the rise, although at a slower rate than in the past. The *Engineering News-Record* Construction Cost Indices calculated a 4.9 percent increase in construction costs from December 2007 to December 2008.

Market value vs. replacement cost valuation

The coverage you currently have is written on a replacement cost basis. The insurance policy requires the property owner to insure their structure at what it would cost to replace the building. The insurance company is then obligated to repair or replace for like kind and quality if a loss occurs. Market value is the cost of what the building would sell for today.

Market Value Variables	Replacement Cost Variables
Sub-prime loan crisis implications	Trends in material costs
Foreclosure rates	Fluctuating fuel costs
New housing starts	Labor costs and availability
Housing shortages in some locations	Changing construction code requirements
Location factors	Changing construction standard and practices
Land value	New technology

Key factors that contribute to rising construction costs

- Fluctuating energy costs.
- Rise in the cost of skilled labor.

- Reduced competition as some builders go out of business.
- Increased overseas demand for raw materials and building products.
- Price increases for roof shingles and wallboard.

Building materials cost increases from December 2007 to December 2008

CONSTRUCTION COST COMPONENT	ANNUAL PERCENTAGE INCREASE
Millwork (windows, doors, cabinets)	2.1
Appliances	4
Concrete Block and Brick	4.7
Hardware	12.5
Asphalt Roofing	58
Concrete	3.9
Gypsum Products (drywall)	7.5
Paint	16.7

Reconstruction costs more than new construction

When rebuilding a structure after a loss, contractors must work with and match existing materials, which requires skilled labor that costs more. Plus, when a contractor rebuilds a single structure, there are no economies of scale. The cost to rebuild is always higher than the initial cost to build.

Varying profits for general contractors and subcontractors

The replacement cost for a structure includes the builder’s profit and overhead, which averages 10-20 percent of the building cost. Architectural fees for additions and renovations can add another 10-15 percent of the building cost.

U.S environmental factors

Recent natural disasters such as hurricanes in coastal regions, floods in the Midwest and wild fires in the West have contributed to shortages of building materials and overall cost increases. For example, following Hurricane Katrina in 2005, the cost of materials like concrete, steel and copper increased at a double-digit rate, while the cost of lumber more than doubled. A heightened emphasis on building “green” with environmentally friendly materials and ultra-efficient technology has also contributed to rising construction costs.

The Sorority chapter houses would have recently participated in an Appraisal Project, in which a third party vendor, Maximus Appraisals, appraised the replacement cost value of the structure. It is through these combined efforts that we can be confident that our insureds have met their obligation in the policy of maintaining replacement cost values for their property.

Construction cost trends are fluid and dynamic, and we will continue to ensure that you are not over insuring your property under your group’s national insurance program.

Should you have any questions on this subject, please contact your Account Executive in the Sorority Department.

The **MJ Insurance Sorority Division** provides integrated insurance and risk management consulting to women's fraternities and sororities. Offering an **Intensity** in our approach as your advocate, with our **Integrity** as our measure and by developing **Innovative** solutions, MJ Insurance, Inc. has become one of the top 100 ranked insurance agencies in the United States.

www.mjsorority.com |  [Twitter](#) |  [MJ Sorority Blog](#) |  [Facebook](#) |  [RSS Feed](#)