

Goldilocks' Homeowners Insurance: Is Your Coverage Too Little, Too Much, or Just Right?

From Q2 2019 to today, the Zillow Home Value Index for Watauga County has increased from \$261,000 to \$477,000. With an 83% increase over the three years, this only measures homes that fall into the 35-65th percentile of the market. A majority of the top end homes on the market are even higher. In the same time frame, the Mortenson Construction Cost Index has increased from 133 to 172, a 29% increase nationally, with the local markets seeing much higher increases.

When considering how your insurance program is structured, this presents two drastic items of concern:

First Item of Concern:

The market value is significantly outpacing the current cost of construction and labor to replace a home in the event of a total loss.

Today, homes in our local market are selling for as much as 2-3 times what it would cost to replace them in some instances. When discussing pure property value, land & amenities are not insurable (homes near a ski resort, river, or homes with a view, etc.). This discrepancy could lead to a home being over-insured if they do not receive the proper advice, and the offered coverage is to equal the purchase price of a property.

For investors buying property to utilize for rentals in some capacity, the speculation of potential income that factors into a property's purchase price is also not factored into the valuation of the building itself. However, the investor should properly contemplate this figure in the Loss of Use/Fair Rental Value policy portion.

In some cases, we have seen issues in the mortgage underwriting process where the bank requires a specific limit of insurance coverage that is well beyond the calculated replacement cost due to the inflated purchase prices.

Second Item of Concern:

The increased construction costs continue to outpace the customary inflation-guard protections on long-standing property insurance policies.

This item should be far more concerning for most homeowners today. The most common homeowners policy for individuals is the HO-3 form. The HO-3 provides Replacement Cost coverage for the dwelling with the option to add an inflation guard. "Specified Additional Amount of Insurance" is usually an additional 25%. Considering the above data, if you initially took out your homeowners policy more than two years ago, your home is likely underinsured even with the inflation protections in place.

Recently the economic conditions in the housing market have caused two significant concerns for insurance coverage on homes, the first over-insurance, and the second under-insurance. For new home buyers, we recommend they consult with their advisor to discuss any discrepancy between the purchase price and replacement cost calculation to ensure accuracy.

Recommendations to Fix These Issues:

- ▶ Schedule a policy review of your coverages with your advisor.
- ▶ For our clients, many carriers in North Carolina can offer coverage on a HE-7 (Homeowners Enhanced Form).
 - ▶ The HE-7 offers broader coverage across the board than your standard HO-3, including many cases, Guaranteed Replacement Cost. This clause will guarantee the replacement of your home, given your policy's limit is insufficient to rebuild your home.
- ▶ Making these changes will likely result in a higher premium than your current program.
 - ▶ However, we never had a client that thanked us for cutting corners and saving them a few dollars a month when they had a catastrophic loss. However, they were grateful we designed an insurance program that provided the correct coverage.

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