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The Replacement Cost Of Your Home

When shopping for a property or homeowners insurance policy, the main decision you'll need to make is how much coverage you need to purchase for your dwelling coverage. We recommend you purchase enough coverage to cover the costs to rebuild your real estate property, also called its replacement cost. Estimating replacement cost can be done with a professional appraisal, home builder contractor or even by yourself. Purchasing dwelling coverage at a level sufficient enough to completely rebuild your home will ensure you are completely covered by your home insurer in the unfortunate event of a total loss, in which your home is completely destroyed.

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What is Replacement Cost?

Replacement cost is the estimate of the price of rebuilding a new home that of same size and like. Replacement cost will depend upon a variety of factors, including construction costs, square footage, the quality of materials used to build the home and home features, labor cost and material. Recently price of labor and material was increased due to labor shortage and increased tariff and imported material cost.

It's important to understand that replacement cost of your home is not the same as the market value of your home. The market value of your home is the selling price of your home. But the cost of building the home from ground up could be much higher than the purchase price or lower depends on location and land value and building cost.

Why is Knowing the Replacement Value of Your House Important for Homeowners Insurance?

At the time of buying a homeowners insurance, the main coverage feature you should be looking for is dwelling coverage, or Coverage A. Knowing the replacement cost of your home is important because it will help you select right coverage for your property, this increasing the likelihood you'll receive sufficient reimbursement from your insurer to rebuild your home if you make a claim.

For example, say your home has a replacement cost value of \$600,000, but you selected a Coverage A limit of \$400,000 on your homeowners insurance policy. If your home is destroyed by a covered event—such as a fire or a windstorm—your insurer will only cover your dwelling up to your selected limit. That means you'll have to cover the remaining \$200,000 of rebuilding costs to your home out of your own pocket.

If your home is destroyed, the difference between the cost to rebuild your home and your home insurance dwelling limit is what you'll pay out of pocket.

Replacement cost	Dwelling limit	Out of pocket costs
\$600,000	\$400,000	\$200,000
\$600,000	\$600,000	\$0
\$650,000	\$600,000	\$50,000

You can't be sure your homeowners insurance fully covers you unless your limits are set at or above the replacement cost of your home. If your policy limits are not high enough to cover you in the event of a total loss, you're underinsured. However, homeowners should also know that the cost to build a home is not fixed, and even an accurate assessment of replacement cost at one time may not hold true in the future.

About two in every three homes in the country are underinsured, according to Nationwide reports. Determining your home's replacement cost is an important step toward increasing the chances your home insurance provides adequate coverage.

Replacement Cost Calculations Are Not a Guarantee

Owners should seek the best estimate possible of the cost to rebuild their home, but they should also realize that there is no guarantee it will ultimately be accurate. For example, if a devastating fire drives up construction costs for everyone in your area, the cost to rebuild a home may be far higher than an initial estimate based on current labor costs and construction material prices.

On the other hand, home insurance companies often do offer policyholders options to expand their protection and create a buffer against rising costs in such cases, but the term and condition of using such buffer is the house be insured at %100 insure to value at the time of loss. If it is not insured at the %100 then the Extended replacement cost will not kick in. An extended replacement cost policy will cover you up to a certain percentage above your dwelling limit. For example, if you have a 25% extended replacement cost policy with \$300,000 in dwelling coverage, your insurer will cover you for rebuilding costs up to \$375,000, or 25% more than \$300,000 if you covered at the 100% of insurable value.

Actual Cash Value Versus Replacement Cost Value

It's important to be aware that not all home insurance policies will value your home at replacement cost value (RCV). When you buy a policy, you'll generally have the option to choose between RCV and actual cash value (ACV). Whereas RCV policies will reimburse you to rebuild a home of similar quality in today's market, ACV policies account for depreciation and wear and tear.

Consider a simplified example. Imagine your home cost \$600,000 to build at the time of purchase, and the materials used to construct it have a lifespan of approximately 50 years. After 25 years, the dwelling is considered halfway through its lifespan, and its materials have depreciated to half their original value. In the event of a total loss of your home, your insurer would reimburse you for \$300,000, half the original value. ACV policies are cheaper but will leave you with higher out-of-pocket costs in the event your home or property is damaged or destroyed.

While RCV coverage is more expensive, it will give you the security of knowing you'll be fully reimbursed for damage to your home, up to your policy limits. The exceptions to this rule are policies that do not reach an 100% insured-to-value threshold. If they're not, you won't be guaranteed full reimbursement for damages to your home.

How insurance covers you if you're below the 100% insured.

Replacement cost	\$600,000
Dwelling limits	\$450,000 (only 75%)
Fire damage cost	\$50,000
Insurer reimbursement	\$37,500 (only 75% of fire damage costs, minus your deductible)

How to Calculate the Replacement Cost of Your Home

There are a variety of ways to calculate how much it costs to rebuild a house and obtaining more accurate estimates will require greater effort by you, the homeowner. But considering the need to appropriately value a house for insurance purposes, every home insurance shopper should use two of these resources to obtain an accurate home insurance replacement cost.

Today's Methods to calculate replacement cost:

- [Obtaining an insurer appraisal \(75% risking to be underinsured\)](#)
- [Obtaining an estimate from a few local contractors or architects](#)
- [Hiring a professional appraiser to compare](#)
- [Doing the math yourself](#)

Given the importance of an accurate replacement cost value in setting your home insurance limits, we recommend not relying solely on insurer estimates of your home's replacement value. Incorporating an alternate approach and obtaining a third-party—or your own—estimate of your home's value will increase your confidence that you've selected the correct dwelling coverage limits.

Obtaining an Insurer Appraisal to compare with actual cost.

An insurer often uses its own proprietary technology—or third-party technology—to estimate the replacement cost of homes it insures. For example, if you get a homeowner's insurance quote from State Farm, it will use a replacement cost estimator for home insurance calculated by 360Value, a tool created by Verisk Analytics. These analytical tools calculate your replacement cost based on inputs entered by agent or employee of the insurer and by construction costs sourced by the creator of the tool and insurance company desired factor

incorporated in that estimate to lower or higher the premium to effect the market share which could be totally misleading estimate.

This method is probably the easiest way, but it won't be reliable as an in-person appraisal or real estimate from general contractors which do the real job of building your home. If you do plan to rely on an insurer estimate, be sure to compare estimates from another source too.

Obtaining an estimate from local Contractors or architects

One of the best ways is to call a contractor that you know and trust to receive actual reconstruction estimate or call local association of home builders NAHB or the Architects EAAunion to get a list of accredited home builders and architects in your area to help you with replacement cost estimate.

Doing the Math, Yourself

The final option—is to estimate replacement cost yourself. Calculating replacement cost by yourself is a free and educational exercise, but we would recommend getting some form of formal appraisal and general contractors too.

The Replacement Cost factors of Your property?

A variety of factors contribute to the replacement cost value of a property. To generalize, these factors fall under five categorizations: square footage, house shape and style, features and finishes and home fixtures. Whether you're using an online replacement cost estimator or figuring it out yourself, you'll have to incorporate all these factors into your replacement cost calculation.

Factor	Contribution to replacement cost
Square footage	Bigger homes cost more to rebuild, all else equal. The larger your home, the higher its replacement cost is likely to be.
House shape and style	More complex house shapes result in higher rebuilding costs. For example, homes with many corners are likely to have a higher replacement cost.
Features and finishes	The quality and breadth of home features will affect your replacement cost. For example, high-quality roof and flooring materials will result in higher replacement cost.
Home fixtures	The quality of home fixtures—such as cabinets or countertops—can greatly affect replacement cost. The type of heating, cooling and electrical systems installed in your home can also influence the estimated cost of rebuilding your home.

Other Coverage that effect replacement cost and premiums:

Please be aware that other coverage like Ordinance or Law also needs to be considered and purchased because laws and codes are upgraded by authorities.

**The above replacement cost estimate methods and calculation are provided by the
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