

# Keeping insurance values up to date

## COMMERCIAL PROPERTY – BUILDING COSTS

### Update building values regularly

It took time, effort and hard-earned investment dollars to create and sustain your business. Help your business thrive by regularly assessing the current value of your buildings. The values stated in your insurance policy may not be enough to cover replacement costs at today's prices if a major loss occurs. Insurance to value (ITV) is an assessment of the complete cost to replace insured property – a critical element of a comprehensive property insurance program.

### 1 in 4 businesses are forced to close their doors following a major loss

Some business owners find their limit of insurance to be understated by 50%-75%, resulting in significant, unexpected out-of-pocket costs, business disruption or termination of operations, as insurance limits are exhausted.

Each year, disasters such as floods, hurricanes, tornadoes and wildfires force thousands of businesses to close. But even more common events, such as building fires, cause the same result. Our research shows that at least 25% of those businesses that close following events such as these do not reopen.<sup>1</sup>

### Building materials demand – going global

Soaring demand from rapidly expanding nations such as China, India and others has greatly impacted the cost and availability of building materials worldwide.

Building materials that were once manufactured domestically are now frequently made overseas – and they're shipped everywhere. Demand for materials is now a global competition. Your neighborhood lumberyard is, indeed, competing with global forces that wish to utilize the same materials.

For this reason, price increases for building materials may more closely parallel the inflation rates of rapidly expanding nations rather than our own.

### Rebuilding yesterday's buildings at today's prices

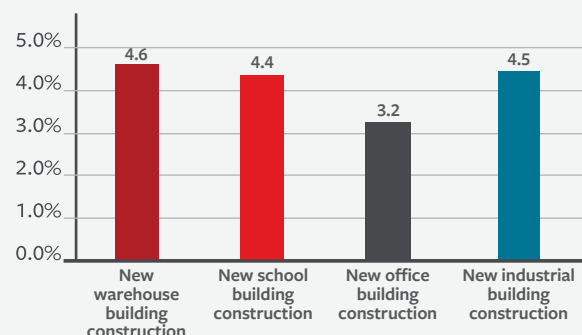
Because the cost of building materials and labor have escalated so steeply in recent years, many commercial properties cannot possibly be reconstructed for the values stated on their insurance policies.

The U.S. Bureau of Labor Statistics reports that the the Consumer Price Index (CPI) for all items increased 2.3% between December 2018 and December 2019.<sup>2</sup> As noted in the charts to the right, builder construction and material prices have escalated faster than the CPI.

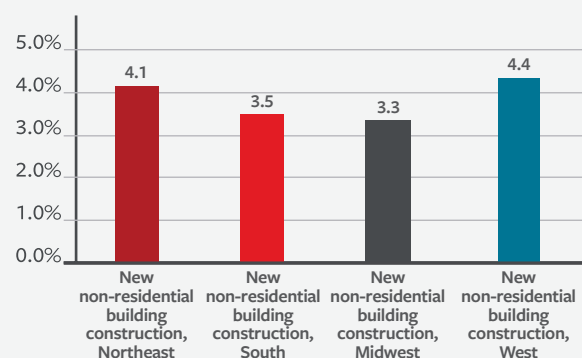
**For more information about ITV, contact your Travelers representative. Ask about our easy-to-use tools to help determine current values for property exposures.**

### BUILDING CONSTRUCTION COSTS (MATERIAL AND LABOR) YEAR-OVER-YEAR PRICE CHANGE<sup>2</sup> DECEMBER 2018 – DECEMBER 2019

#### Producer Price Index: New Buildings by Type



#### Producer Price Index: New Buildings by Region



<sup>1</sup>Institute for Business & Home Safety (IBHS)

<sup>2</sup>U.S. Bureau of Labor Statistics 1/2020