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Protecting Your Club

Insuring Your Club Against Today's Costs

The club industry, like most other commercial real estate enterprises, has experienced upturns and downturns. Throughout 2021 and into 2022, the construction industry has faced skyrocketing costs, presenting significant challenges for new construction projects as well as property repair and replacement projects.

This volatility can trigger questions about the difference between market value and insurance reconstruction costs, and your club's property insurance. Many variables drive the reconstruction costs to repair or replace damaged property and how those factors differ from both the market value and the costs associated with new construction.

Most insurance companies are moving quickly to assess and initiate adjustments caused by rapid inflationary trends experienced in the recent post-COVID periods. This reaction, in most cases, has resulted in further increased valuations and premiums on their current portfolios of insureds, including club properties.

Common misconceptions about replacement costs

Real estate market value is the estimated price for which a property could be sold on the open market. It can depend on several factors, such as location, age, condition, and comparisons to similar properties in the area. It is also affected by:

Insurance reconstruction costs

Reconstruction cost is the cost to build a duplicate of the building using like kind and quality materials and standards of workmanship at the current market prices. Most of the leading carriers utilize costs, trends, and analysis to develop an insurance-to-value estimate. In the past, these calculations were nominal, with moderate swings due to prolonged low inflationary periods. That is no longer the case with inflation given national averages hovering as high as 30 percent based on replacement value cost trends published by Zurich Resilience Solutions in January, covering 183 metro areas.

Replacement cost versus reconstruction cost

While similar in concept, they are not synonymous. Replacement cost is the cost to construct the entire building with equal quality construction. Unlike reconstruction cost, replacement cost is based on "new construction" from the ground up that encompasses initial planning, demolition, site improvements as well as multitudes of code variances and change orders.

Cost fluctuations affecting both reconstruction or replacement labor and materials

According to data reported by CoreLogic Commercial Insurance Bulletins and Cumming's Domestic Material Price Trends, two reporting firms specializing in building valuations for insurance purposes, costs of labor and construction materials have consistently trended upward since the fall of 2019. These and other reporting bureaus that monitor building trends are excellent references but may not tell the full story as reporting may lag one to two quarters behind real time and may not fully incorporate true inflationary pressure on the current reporting period. So always refer to these tools as a guide while allowing for a range of data versus a fixed percentage.

Due to labor shortages, supply chain constraints, and the general inflationary environment, construction costs are up across the board. Of the major materials measured, from the highest being lumber to the lowest being concrete pipe, costs have spiraled up from 3 percent to over 56.8 percent in the last 12 months.

Present building codes

In addition to construction costs, most jurisdictions require compliance to meet current building codes during reconstruction. Energy efficiency as well as costs of past upgrades cause variances in costs that may not have been factored into your reconstruction costs.

Construction sequence changes – In rebuilding an existing structure, additional costs occur due to order of operations and material procurement.

Restoration/repair contractors – Normally, if required, there are higher costs due to their specialty, such as asbestos removal contractors.

Site accessibility – Numerous site factors not present during initial construction often impact reconstruction costs. Underground and overhead utilities, landscaping, and other site improvements.

How to right-size your coverages and costs

So, what is the best advice to avoid making costly mistakes when it comes to calculating the replacement value of your club and its property?

Generally, you should look to a competent source who provides valuation services. Look to one who understands the nuances of property valuations and can help determine the appropriate replacement costs for buildings, new and old. By getting a better handle on your property replacement costs, you can avoid over-insuring your property and potentially lower your overall costs for coverage. **BR**