

Building Material Costs Escalate - Is your Building Underinsured?

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Industry studies have indicated that more than 70 percent of commercial properties are at least 40 percent underinsured. Many property policies are renewed on an "as is" basis. Proper valuation is critical in protecting a firm's financial health in the event of loss.

According to a 2005 *Wall Street Journal* article titled "Construction Sticker Shock", the United States experienced a 10.5% rise in the cost of constructing a building in 2004. While 2005 showed single digit material cost inflation, the compounding effect can quickly leave commercial property insurance values understated.

Worldwide demand for building materials has surged over the last 2 years due to massive construction projects in China and the rebuilding of tsunami-ravaged Southeast Asia. The recent United States hurricanes have further impacted demand for both materials and labor.

Given the dramatic inflation in construction materials and labor, it is recommended that you consult your insurance professional to discuss the proper limit of insurance necessary to cover reconstruction expenses in the event of a loss.