

Acadia Insurance

Are your clients' property limits adequate? Thanks to the building boom, maybe not.



Project Costs Have Increased

Recent inflationary trends in the costs associated with construction materials and labor are outpacing annual inflation guard increases on commercial property limits. According to Xactware, construction costs have increased 14% over the prior year.¹ Lumber alone saw a three-fold increase over the prior year. This can create a situation where a property can become underinsured in the event of a loss.



Source: Trading Economics

While we are hopeful that the lumber peak has passed, analysts forecast that lumber costs will remain high for another year, and will not return to pre-pandemic levels.² Frame construction is not the only type of construction impacted. The cost of other materials has also risen as have delays in sourcing materials for a project.

The rising costs of material and labor has a significant impact on replacement cost valuation to determine adequate limits for a property. Even if you viewed property limits last year as part of the renewal cycle, they may no longer be adequate given rising construction costs.

Projects Delays Are Rising

Project delays are increasing in frequency, an effect of the high demand and tight supply of both materials and labor. This trend can adversely affect claim severity by extending the recovery period for an insured after a property loss, impacting both the cost to restore the property and loss of income due to increased down time. For Builder's Risk policies, project delays following a loss can trigger Delay in Completion expense coverage, adding to the claim severity.

¹ "Xactware Industry Trends for 2nd Quarter 2021." <https://www.xactware.com/en-us/resources/pricing-data-services/pricing-news/>

² April 21, 2021. "High cost of lumber delaying your home projects? Here's when prices could come down."