UNDERINSURED PROPERTY

HAVE YOUR POLICY LIMITS KEPT UP WITH REBUILD COSTS?

RAPIDLY RISING commercial building construction costs could leave your facility underinsured if you haven't increased your insurance policy's replacement cost limits lately.

Your policy has a maximum amount it will pay to rebuild your building, and that limit should reflect current construction costs. Otherwise, the policy may not cover the full cost of rebuilding after a total loss, such as a fire that destroys your facility. Whatever the insurance doesn't cover, you would have to pay out of pocket.

Construction costs

The danger of going underinsured has grown due to rising rebuilding costs. According to a report by Verisk, reconstruction costs in the U.S. increased by 5.2% from April 2025 to April 2026. Those rising costs come on the heels of massive material price increases of 40% from 2020 to 2023, when supply chains were snarled.

Some prices have come down a little, but most remain higher than before the pandemic.

With tariffs still in place on many construction goods, prices remain elevated for vital products such as steel, lumber, fixtures and roofing materials, most of which are imported.

Also, the construction industry faces a labor shortage, which has increased rebuilding costs and project completion times. Longer waits for available workers can extend compensation periods and place a serious burden on businesses.

Replacement cost

One critical part of the claims settlement process is determining the cost to reconstruct a building using new materials and current labor rates. When reconstruction costs rise, so should your policy limits.

For example, a property owner bought insurance five years ago with a coverage cap of $1.5 million.

With escalating material and labor expenses, the present reconstruction price has soared to $1.8 million. Should a total loss occur, the insurance payout may fall $300,000 short, forcing the owner to pay the rest out of pocket if they haven't increased their policy limits.

How to get ahead of the problem

Review your policy – Work with us to conduct an annual policy check to ensure that your limits reflect current reconstruction costs, averting monetary shortfalls.

Choose a replacement cost value policy – An actual cash value policy deducts depreciation, resulting in payouts that may not cover the actual construction cost. RCV policies may cost slightly more but cover rebuilding with new materials at prevailing market rates, lessening out-of-pocket expenses.

Expand your coverage – Ask us about expanded coverage options like:

- Extended replacement value coverage, which boosts your policy limits if reconstruction costs exceed them.
- Loss of use insurance, which helps pay for temporary relocation costs if the property becomes uninhabitable.
- Ordinance or law insurance, which covers expenses for complying with current building codes.

If you have any questions regarding your coverage or our products, please call us at one of our offices:

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