

The cost of building replacement

If an unforeseen disaster were to damage or completely destroy your property, you would have to deal with the stress of rebuilding aside from the trauma the loss. If you have a bond, you would also have to continue paying the instalments on an asset that no longer exists.

Your building, be it a home or commercial property, is one of the largest investments that can be made, thus it is important that your building insurance adequately covers you in the event of the building being partially or totally destroyed or damaged by fire, earthquake, flood and/or other insured events.

Financed property, as vehicles is required by law to be comprehensively insured. However property owners can elect with whom the building is insured. Please note building insurance covers damage or replacements to the actual building and all the fixtures and fittings therein and does not include contents within the building or business risks etc.

It is vitally important to calculate to the replacement cost of the building. The market value, "which includes the stand, its location, as well as the age and condition of the property, is not necessary the same, most often it is vastly different. A property bought for R62,000 in 1986 and sold for R975,000 in 2009; would have cost in excess of R1,200,000 to replace.

Buildings cover or 'Home owner's cover' as it is often referred to in the estate agents industry, generally covers the immovable structures on your property such as walls, roofs, satellite dishes, aerials, your swimming pool, gates and gate motors, underground pipes and cables).

Buildings insurance usually provides cover for:

- fire, explosion and earthquake
- acts of nature such as wind, thunder, lightning, storm, hail, flood and snow
- bursting and overflowing of geysers and water pipes
- theft
- lightning and thunderbolt impact
- accidental damage to glass and sanitary ware
- alterations and additions
- fire brigade charges
- subsidence, heave and land slip
- temporary accommodation
- liability to other people including domestic employees

With most of us looking a ways to save money, by cutting costs in most businesses and households, we are scrutinising every monthly payment and premium. But think again before you consider cutting out or reducing your building insurance premiums. Building insurance is one of the cheapest rates you pay for your commercial & domestic cover.

For example; your house has market value of R1m and costs R1.4m to replace.

You insure for the outstanding bond amount of R700,000

Upon total destruction:- you get paid out based on the insured amount, not any other value.

However your house is underinsured, the insured value is expressed as a percentage of the replacement value :- R700,000 divided by R1.4m = 50%

Therefore the payout is 50% of R800,000 = R400,000. The same applies to partial losses.

You now have a shortfall of R400,000 to pay off your bond and no house!

To insure correctly, at the value of R1.4m, the increased premium will be less than the percentage increase in cover.

Which is the lesser of two evils? No home or a slightly higher premium?.

With contents cover, the same applies, even to partial losses.

Therefore David Counihan advises that property and household contents be insured for its true replacement value. This is because being over-insured means that you get the same benefit as you would for a lower premium. "It's also not worth the risk of any shortfalls because you are saving on the monthly premium," he says, "if you are underinsured, the insurance payout will be less than the cost of rebuilding should disaster strike." David also advises that homeowners remember to increase the value insured to cater for costs such as demolition and professional fees. Remember building costs annual inflation when calculating the value.

Any improvements you have made to the property need to be accounted for in the building insurance, no matter whether it is a sectional title or full title property. Your broker should be kept up-to-date with any renovations or additions or any items that increase the replacement value of your building. Please remember that all alterations / improvements, where structural and plumbing changes are made must be recorded on your building plans lodged with the municipality.

When shopping around for building insurance quotes, an accurate valuation of the replacement cost of your building is vital. "The valuation serves as a basis from which future cost escalations, among others, are determined." Make sure that you have an accurate "Apples for Apples" comparison

When insurance companies are quoting on different valuation figures, premiums are bound to vary and you won't be able to compare apples with apples, so to speak.

Calreg uses a single platform, which uses to draw quotes from 15 different insurers with the same input; thus ensuring that you get the best exposure to what's on offer.

Additional items such as air-conditioning units or solar heating panels may be best insured specified basis. Thatched roofs or wooden structures need individual attention, while a commercial or business insurance policy will be required for residential properties that operate as bed-and-breakfast establishments, or if a business is operated from the home. Many insurers now provide cover for home based businesses with their normal domestic contents cover.

Rather be safe than sorry, if you are in doubt, check with your broker or insurance company if your cover is appropriate. The cost is "safe" is minuscule when compared to the cost of loss and undervalued payout.