

LOSS PREVENTION

Dramatic Increase in Cost of Building Construction

Commercial building construction costs have increased 12 – 15% in the last 12 months in many areas of Canada according to Stats Canada. The largest increases have occurred in Alberta. These increased costs result from a combination of many factors.

The high demand for building materials, such as softwood, drywall and steel, in building boom areas has driven up the cost of most construction materials. Higher oil prices have increased transportation and construction equipment operation costs.

The increased cost of building materials and operational costs has been further compounded by a huge increase in labour costs due to a shortage of skilled workers resulting from construction booms in many areas in Alberta and the labour draw from the oil fields.

The lure of higher wages in these areas has drawn skilled labour from most other provinces, resulting in increased labour costs in all areas. (Manitoba Government recently announced a 21% increase in construction labour rates.)

These factors, along with a shortage of contractors to work on all the projects, have caused a dramatic rise in the cost of reconstructing a building following a major claim such as fire or severe water damage.

We recommend that you increase your limits of insurance to ensure that you are properly covered in the event of a loss to replace your business. It is important that you insure for the correct value. In the case of even a small or partial loss, you may not receive the full amount of the loss as you may be subject to a Co-insurance penalty (if you have a Co-insurance clause on your policy) should you not have enough insurance coverage.

What Is Co-insurance?

The Co-insurance clause requires you to insure for the amount of insurance equal

to the percentage stated in your policy, applied to the value of the property insured.

Your representative can assist you in establishing the appropriate amount of insurance. A tool we use to help establish the right amount is a computerized program called "Boeckh Evaluation" which is used to calculate the estimated Replacement Cost or the depreciated Actual Cash Value of your building (sometimes called "Market Value").

Market Value vs. Replacement Cost

It should be noted that the "Market Value" (what you could sell your building for) could be a substantially less for older buildings than the "Replacement Cost" (what it would cost to reconstruct your building as brand new construction).

As well, the costs to reconstruct your building following a loss such as a major fire is much higher when replacing your building as quickly as possible, particularly when it is essential to keep your business going and you don't have the luxury of waiting for better quotes. Should you have to rebuild in the winter, then costs go up as well for hoarding and heating.

While the Boeckh Evaluation system is an excellent tool to help establish estimated re-construction cost, the most accurate means is to obtain a professional appraisal; please consider having one done.

We urge you to contact our office if you have any questions or would like to review your present policy in any respect.



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