



BEAMS FROM THE LIGHTHOUSE VOL. 14; MAY 2021
A NEWSLETTER FROM LIGHTHOUSE CONSULTING, LLC
KEEPING YOU OFF THE ROCKS

Who wooda thought?

It's an open secret that the price of lumber has greatly increased over the past year. The reason? You guessed it- the pandemic.

It's a familiar supply chain story by now. When the lockdowns began the common wisdom was that demand for new construction and renovations would dry up so lumber producers hunkered down by reducing inventory. But low interest rates stimulated new home construction. Renovations picked up too. Supply has not been able to keep up and lumber prices rose 340% in the past year.

Probably not a good time to build a house?

According to one industry source the higher lumber prices sent the reconstruction cost of a single-family house up about 12% to 24% in the past year. Interestingly the cost of labor has not increased.

How does that affect insurers?

Personal lines companies use 100% of the dwelling's replacement cost for the Coverage A limit. Typically, they use an ITV calculator for the original policy and then use trend factors to bump up the limit on subsequent renewals. These trend factors historically have been 3%-4%. Going forward insurers should be running the valuation models on every renewal in 2021 to get accurate values.

Claim costs on Coverage A will likely increase. In the short term expect to see an increase in the loss ratio until renewal values and premium catch up.

Any impact on commercial lines?

Reconstruction costs on ISO Class 1 (frame) and 2 (Joisted masonry) construction will be impacted. Also, keep an eye out for the newer "mass timber" construction. These are multi-story buildings that use large amounts of wood for structural members. Builder's risk projects can be tricky since the value of the project was probably set before prices increased.

Won't wood priced get back to normal once everyone is vaccinated?

Probably not. The market for new homes and renovations is strong and likely to remain so if interest rates stay low. The common industry wisdom is that prices may drop a bit but are likely to be 2x- 3x the historical norm.

What am I looking for in an audit?

Insurance to value is checked on every file reviewed. I'll be checking the most recent calculations on wood construction and highlighting those properties that appear to be under valued. It also would be wise to review a few recent claims involving wood construction.