

Underinsurance 'made worse' by rising construction costs

A sustained rise in construction costs this year is increasing the likelihood of significant underinsurance of buildings in the UK.

Recent data from **RebuildCostASSESSMENT.com** has highlighted how on average, buildings are covered for just 68% of the amount they should be in Britain. However, with rebuild costs rising rapidly, the current situation is likely to be even worse.

According to the Builders Merchants Federation (BMF), prices have risen by between 10% and 15% for products and materials this year. However, some products, such as timber, have seen prices go up by 50% and by as much as 100% for oriented strand board (OSB) and other sheet materials, which are all key housebuilding components.



RebuildCostASSESSMENT.com director Will Molland MCIQB AssocRICS, said: "The main factors at play here are pent up demand following Covid lockdowns and the re-starting of postponed building projects, as well as the impact of Brexit on imports from the EU.

"The loss of around 1.5 million foreign workers throughout 2020 and 2021, many from construction, together with increased demand in other countries for construction materials, such as high Chinese demand for steel and extended lead times for virtually all materials, have combined to create a perfect storm around rebuilding costs."

Indexation adjustments

Between July 2020 and July 2021, the cost of materials rose by 20%, according to the Office for National Statistics (ONS). The RICS' BCIS general building cost index is forecast to be 8.8% for the year to September 2021, up from 3.6% for the year to March 2021.

Will added: "It is unlikely that day one uplift or annual indexation will have allowed for these increases and, where a building sum insured is already on the low side, the rising costs highlighted will be increasing the potential for underinsurance."

Rates used by **RebuildCostASSESSMENT.com** on commercial property are taken from the RICS BCIS service and are subject to indexation adjustments on a fortnightly basis, allowing for recent increases in material and labour costs. For High Net Worth (HNW) homes regular analysis of multiple data sources, including cost plans from building contractors, is reflected in rebuild rates used along with adjustments for current increases.

"It is expected that general building cost inflation at this level will inevitably hide a range of increases and the residential sector, particularly HNW and listed properties, will be particularly vulnerable to even higher rates of build cost inflation," said Will.

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