



As inflation increases in 2022 and COVID-19 continues to affect supply and demand, help your customers understand the importance of being **Insured to Value**.

### **What is the definition of "Insured to Value" (ITV)?**

Insurance to value is the relationship between the amount of coverage selected and the amount required to rebuild your home or business property.

### **How is ITV calculated?**

When calculating ITV, it is important to calculate the actual cost to reconstruct the destroyed dwelling or property; the ITV will be **based on the current cost of materials and labor, it will also include the cost of debris clearance, engineering fees, permits and general contractor's overhead and profit.**

### **Why are these costs rising?**

Costs can be simplified into three impactful drivers: materials, labor, and demand. Beginning in 2020, these drivers joined to create the perfect storm. Compounded by the effects of U.S. imposed tariffs and the pending U.S. Infrastructure Plan, costs are expected to remain at current high levels for the foreseeable future.

### **Materials**

Global need and U.S. tariffs on many of the materials required for common construction have converged to drive costs to record highs for components such as **lumber** [cost doubled in 2021 year-over-year from 2020], **steel** [U.S. is 70% higher than the global market], **oil** [increased 80% since October 2020], and **copper** [currently trending at a 10-year high].

### **Labor**

The construction labor market has not changed much from pre-pandemic levels. Contractors are still finding it difficult to find labor, especially in highly skilled segments. The net shortage is estimated to be 650,000 workers in 2022 [source: Associated Builders and Contractors]. Part of this shortage is because a large portion of the pre-pandemic workforce has elected to leave construction jobs for other industries. The larger portion of the shortage will soon be realized as the Infrastructure Investment and Jobs Act begins to invest in critical infrastructure projects and moves some of the current workforce into those projects, leaving new construction for things like commercial building space with a growing shortage.

### **Demand**

If there is a thread that connects the rising costs of construction today, it is simple supply and demand. There is, and will continue to be, a high demand for construction at all levels, from home renovation to large commercial complexes to massive infrastructure rebuilds. When coupled with supply chain gridlock and a lack of a qualified workforce, those with capacity and access to resources will be able to take advantage of, or perhaps better stated, be rewarded for, their ability to manage through difficult times.