

How Homeowner's Insurance Values Your Property

The first time you see the value your homeowner's insurance has placed on your home, it might shock you a little. That's because the number is probably nowhere near what you paid for your home, or what it is worth on the market. There is a very good reason for this, and it can be a little confusing at first. Before you panic, take a look at how an insurance company values your home.

Reconstruction Cost Only

Your homeowner's insurance covers the actual physical building that is your home, along with everything that is in it. The purpose of homeowner's insurance is to make sure that if the worst were to happen, your home would be restored to the same level as before the incident. So, if your home were to burn to the ground, homeowner's insurance would pay to completely rebuild the structure and replace everything inside it.

The value that is placed on your home is based on a complicated system of calculations used to determine what it would cost to rebuild your home from the ground up. Things like the price of building materials and cost of labor are all taken into consideration. What isn't included in this amount is the value of your land.

Why Isn't Land Included?

Even if your house were to burn completely to the ground, you would still have your land. You don't lose that, nor do you lose the value of the land. In many cases, the land on which the home sits is more valuable than the structure itself, especially in high in-demand areas. When calculating the value of your home, your insurance company does not add in the cost of purchasing the land, because you don't need to pay for that again.

What About Market Value?

Homeowner's insurance isn't really concerned with market value, because so much of it is wrapped up in things like the land, the location, and the state of the real estate market. All your insurance company is worried about is what it would cost to recreate your home exactly as it was in that same spot. So, market value and reconstruction cost really have very little bearing on each other, except for the connection between pricey areas and the cost of building materials which can be correlated.

The bottom line is, as long as your insurance company has the most accurate information about your home-square footage, building materials used, and all the important features-they can calculate an accurate amount of insurance coverage for you. This reconstruction cost usually also has an extra allowance of about 25%, just in case the calculations are off. In almost all cases, this is more than enough.