

# Valuing high value homes

## Tools for the independent agent

By Todd W. Rissel

**I**t is no secret that home values have skyrocketed in the past few years. In August 2005, the U.S. Census Bureau reported that there are about one million homes in the United States worth \$1 million or more. That is up from 738,838 in 2003 and 394,878 in 2000.

How many of these homes used to be considered “middle class,” but now are labeled “high value” homes? How many of those homes are insured by your agency? Are all of them valued properly? What should you look for in a valuation tool to help you find out?

The Insurance Information Institute tells insureds, “For a quick estimate of the amount of insurance you need, multiply the total square footage of your home by local building costs per square foot. To find out construction costs in your community, call your local real estate agent, builders’ association or insurance agent.”

Did they say “insurance agent?” Hey, that’s you! But, what are your options? Today, you have several. As the III suggests, you could talk to builders and realtors in your area. Real estate agents will be able to give you a “lay of the land” to understand which builders build certain types of homes.

It is important to keep comparisons as “apples to apples” and not “apples to oranges.” If a builder constructs million dollar residences, he or she can offer advice on building costs for high-value homes, but typically not for smaller, entry-level homes. Conversely, a builder of entry-level or more average homes would not be a good source for valuing high-value homes. In fact, averaging the



costs among different types of builders can result in inaccurate numbers.

At the end of the day, however, do you want to be a building cost expert or an insurance expert? Most agents are knowledgeable about home and structure costs, but concentrate their efforts on structuring the proper coverage for

their clients. There are also carriers that specialize in high-value homes and offer a valuation of the home as part of the policy. In addition, individual insurance carriers also offer valuation tools to their agents and brokers. Of course, the carrier wants you to give them the business you value on their system.

But, what if you want to know a home's value without using a company-provided valuation tool, or have one provided without being tied to a particular carrier? In addition to staying connected with outside resources, you should consider purchasing a replacement cost valuation tool for your agency. There are several companies offering valuation tools for agency use. Presuming you are looking for a way to separate low-, mid- and high-value homes, the valuation tool you use must be able to differentiate the values.

Here are some steps you can take to develop an understanding of the high-value home market and find a valuation tool to help you help your client:

1. First, think software, not paper. Almost all paper or book guides are not useful for most homes, let alone high-value homes. By now most paper-based guides have disappeared as their use can be traced to part of the under-insurance issue that arose in the late 1990s.
2. When considering tool options, ask this: Does the software maker represent a particular tool that can be used for any value home (high-, medium- and low-value)?
3. Does your staff have to become experts on the tool, or can they use the tool well with minimal training?
4. Is the tool CD-based or Web-based? If it is Web-based, then the provider should automatically keep the software up-to-date. If it is CD-based, will the provider send out updates? If so, how are the updates kept up-to-date? Do your users have to install them? Is your staff or user capable of managing the updates and will they?
5. Is the value developed replacement cost or cost of the home new? For most policies and to ensure proper insurance-to-value, you'll want a tool that develops a "replacement cost" value. That is, what will it take to replace the home, as it is, rather than putting back a cheap imitation? The owner of a high value home knows the difference. Keep in mind that the replacement cost can be 20 to 25 percent or more of the home's cost brand-new.

6. Is there support after the sale? Can you get support to answer specific valuation questions?

7. Can you easily share the valuation with your client and is the information displayed in a way that makes sense to you, the client and, if needed, a builder? Some software offers the ability to e-mail answers to clients as well as print out a report. Also, a printed or e-mailed report does not help if the client does not easily understand the information. If a client can understand the valuation, you will be confident the correct information was entered into the software. Ultimately, your clients should be a part of this process.

8. Finally, what is the cost to provide the software to your staff? Is the software provided on a "seat-license" or a "site-license" basis? Is it an annual fee or a one-time fee? Are there costs for updates? Can you share the software among all users and all computers? After all, you are working hard to earn those commissions and don't need to spend all of them on a valuation tool.

A good tool should require little training, be efficient, but most of all be reliable. The bottom line: Time is money. Ultimately, the answer developed by the software should be accurate. How do you know if the information offered by the program is correct? Remember those builders you made friends with? Check with them. Or, do any of your clients have a new, high-value home where you know the replacement cost? If so, run those homes through the software and see how the results compare to the actual numbers.

Keep this in mind: Builders and architects develop plans and costs over many hours. Appraisers, whether for market value or replacement cost, spend hours noting features and touring homes using detailed methods to develop their costs. You can't spend that type of time on each home. You need a tool that can speed up the process, typically with less information required by the end-user. The increase in ease may cause the program to lose accuracy. All valuation tools

benefit from using more information. In most cases, however, agents and clients do not have or cannot easily get the detailed information some of these require.

I am not suggesting you take on the liability and exposure of developing the replacement cost that is used for the final amount of insurance for a home. However, some of my agent friends believe it is their responsibility to determine the replacement cost. Other agents would suggest you leave the final determination to the carrier (and/or a carrier-approved appraiser or the methodology of the carrier) that will pay the claim. You can, however, be prepared to discuss the coverage amount with your client and underwriter to be certain there is enough coverage for your client.

There is a quick and effective way for you to analyze your book and to separate out the high valued homes now in your agency. Once you have identified the higher-value homes in your book you will be in a better position to market that business effectively.

Bottom line: There are cost-effective valuation tools available for agents to proactively use. You can find those high-value homes without carrier dependent tools and provide another way to use your agency as a value added resource for your clients, especially if those clients live in one of the one million homes worth more than \$1 million.

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