



# The Cornerstone

A quarterly newsletter from the Appraisal Department of Catholic Mutual Group



COMMITMENT \* EXPERTISE \* STABILITY

## Market Value vs Reconstruction Cost



A common question received by the Catholic Mutual Group Appraisal department is “well I couldn’t sell it for that much, so why do I need to insure it for more than it is worth?” Many people assume that the market value of a property determines how much replacement cost insurance is needed, this is not the case, as the two types of value have very little in common with each other.

Market value is defined by Fannie Mae as “the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus.”

Reconstruction cost is defined by CoreLogic (formally Marshall & Swift/Boeckh) “as the cost to replicate the building structure, as current prices, using like kind and quality materials, construction standards, design/layout, and quality workmanship. Reconstruction costs also includes a number of site specific and process related cost that are experienced when rebuilding.”

As you can see by the definitions, each value is determined with different methodologies and approaches. For example the market value typically includes value for the land the structure sits on, while the reconstruction cost does not consider land value. Condition of the structure has a major impact on market value, in reconstruction cost only if the structure is being insured as “Actual Cash Value” (ACV), would the condition be a factor. And, finally reconstruction costs considers factors such as material costs, site access, working restrictions, etc., while these factors would have very little if any effect on market value.

In order to be properly insured, structures should be valued at the current cost to rebuild, using like kind/quality materials, current labor costs, and complying with the most up to date building codes.



## New Construction Statistics

(Source: US Department of Labor, Producer Price Index, Design Cost Data)

Overall, construction “start-ups” continued to show growth in the first quarter of 2017, posting a 5% increase over 2016. On the residential side, housing starts are increasing to the levels posted in mid-2016 of 8-10%. Commercial start-ups are showing a 5-6% increase, with some regions are indicating double digit growth. Public construction is currently stalled, but considerable growth is expected once new infrastructure proposals are in place.

Similar to 2016, construction material costs remain a mixed bag, with lumber cost indicating about a 5% increase over the past year, with certain species showing much larger increases. Copper costs which decreased last year, are now turning around to indicate a 2-3% increase. Asphalt paving which spiked in 2014/2015 during the oil crisis is now less than half of that cost.

Construction employment has now increased to its highest levels since 2008. Hourly earnings have continued to increase to an average of \$28.52 per hour.

In a January, 2017 survey conducted by Associated General Contractors of America, 73% of contractors indicated they planned to add to their current workforce for 2017. However, the survey also indicated that contractors were having trouble finding qualified people to fill those positions.



## ROOF.....ROOF.....

Asphalt shingle roof cover has dominated the residential markets for many years, they are sturdy, reliable and most important, affordable. A recent study by the National Roofing Contractors Association (NRCA) indicated that asphalt shingles makeup for over 50% of the market. The remaining market is a mix of new and alternative materials, in which home owners are willing to spend additional money for stylistic and longevity benefits.

A new product on the market is synthetic slate. The product is very lightweight, while natural slate can weigh up to 1500 lbs. per 100 square feet of roof cover, this new product weighs in at less than 400 lbs per 100 square feet of roof cover, allowing the homeowner to have the look of slate without the heavy roof load. The synthetic slate comes in numerous colors, allowing homeowners to customize their roofs. One disadvantage to the synthetic product is due to its newness in the market, warranties on the product are unproven, the manufacturer provides a 50 year warranty, but not having any historical data dating back that far, it is hard to say how long the roof will last.

While considerably higher in price than asphalt shingles, contractors are indicating that the new roof material is gaining popularity, as some homeowners are willing to pay for the upgrade in material/labor and the flexibility with customizing the product.



## CATHOLIC MUTUAL GROUP

Catholic Mutual Group was established as The Catholic Mutual Relief Society of American in 1889 by a group of Midwest Catholic bishops who were unable to obtain reasonably priced, reliable insurance on their churches. The bishops worked together to form a mutually protective organization which would help repair or rebuild damaged church properties. From these humble beginnings, Catholic Mutual Group has grown to be the largest provider to the Catholic dioceses, religious orders and other Catholic institutions, including schools, retirement

# 'FOR WHOM THE BELLS TOLL.....'



To paraphrase *Ernest Hemingway*, *For whom the bells toll*, is there any more beautiful sound than those of church bells ringing? The beautiful vibrato of each clang of the clapper as it strikes the bowl, the echo that can be heard for miles.

Bells are rung from a tower to enable them to be heard at a distance, they are rung on special occasions such as weddings or a funeral service, in addition to signifying a time for worship.



In AD 400, Paulinus of Nola introduced church bells into the Christian Church and by the 11th century, in bell towers became commonplace. Historic bell towers exist throughout Europe with probably the most famous being the "Leaning Tower of Pisa", which is the campanile of the Duomo di Pisa in Pisa, Italy. *Interesting Fact: During the Middle Ages, cities sometimes kept their important documents in belfries.*

Traditionally in Christianity, many churches rang their bells from bell towers three times a day generally at 6 a.m., noon and 6 p.m., summoning the faithful to recite the Lord's Prayer, in addition, most denominations rang bells to call the faithful to worship, signaling the start of mass or a worship service. In many Christian services church bells are rang throughout the processions of Palm Sunday and then remain silent through the Easter Vigil.

*The Cathedral of St. Patrick is the seat of the Archbishop of the Roman Catholic Archdiocese of New York built in 1879, and decorated Neo-Gothic style, has 19 bells with the spire height is currently believed to be the tallest in the U.S. standing at an impressive 396.7 feet.*

*While the bell tower at the Cathedral of the Assumption in Louisville is also quite impressive standing at a towering 285 feet, built in 1811, and then nearly destroyed the same year due to anti-Catholic and anti-immigrant bigotry in the city.*

