

Will insurance be enough to rebuild?

'Sticks and bricks' cost 35% to 45% more now than after 2003 fires

By Mike Freeman
STAFF WRITER

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Over the next few months, victims of the firestorms that torched large swaths of San Diego County will embark on the Herculean task of rebuilding their fire-ravaged homes.

They'll become experts on such things as homeowners insurance, contractor bids and costs of construction per square foot – whether they like it or not.

And for many of these homeowners, construction costs will play a pivotal role in just what they're able to rebuild.

Although the housing market has skidded hard in the past year, particularly for home builders, prices of some building materials remain high. Strong demand in international markets for such things as concrete, copper and steel has kept the overall price of construction up – even though prices for such things as lumber, drywall and labor have declined.

Lofty construction prices will test whether many of last week's fire victims are adequately insured – a contentious issue following the 2003 Cedar and Paradise fires that destroyed 2,600 homes.

According to U.S. Census Bureau estimates, residential building costs in Western states were 35 percent higher in 2006 than they were in 2003, when the Cedar and Paradise fires destroyed 2,600 homes in San Diego.

“Since 2003, we're probably looking at direct cost increases – the sticks and bricks to put it together – in the range of 35 to 45 percent,” said Steve Doyle, San Diego division chief for Brookfield Homes. “It has softened a bit in the last 12 months, but that's mostly on the labor side.”

The U.S. Bureau of Labor Statistics estimates that construction material prices are up 1.9 percent so far this year. The good news for fire victims is that's well below the 6 percent annual increases seen over the previous three years.

Yet, even with the severe housing slump, those prices are still rising,



File photo
Rising building costs could test whether fire victims have adequate insurance. After the Cedar and Paradise fires, many homeowners complained that their insurance didn't provide enough for them to replace what they had.

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noted Bernard M. Markstein, a senior vice president for forecasting and analysis at the National Association of Home Builders.

After the Cedar fire, Hallmark Communities of San Diego rebuilt about 50 houses for fire victims in Scripps Ranch, Crest, Alpine and elsewhere. When it got 10 or more neighbors to join together, enabling Hallmark to buy materials in bulk, the company built homes for \$102 per square foot.

Hallmark is interested in working with victims of this latest fire. But with rising materials costs, the local builder would be hard pressed to hit that price today, owner Mike Hall said.

“I would say, for instance on the west side of Rancho Bernardo on the smaller lots, you're looking at \$120 to \$150 a foot,” he said.

The spike in building costs could put pressure on fire victims who haven't updated their insurance policies. After the Cedar and Paradise fires, several homeowners complained that their insurance didn't provide enough for them to replace what they had. And back then, construction costs were significantly lower than they are today.

“I spoke to a guy yesterday who called with a beautiful home in Rancho Santa Fe, and he is woefully underinsured,” said Harvey Levine, a San Diego lawyer who specializes in insurance issues. “The underinsurance phenomenon sadly enough has not been cured since the Cedar fire.”

One flash point is likely to be policy limits. Almost all policies have caps. But victims' advocates say those caps aren't necessarily the absolute maximum that an insurance company will pay.

“Most people think the limit is the limit, and some companies really dig in their heels,” said George Kehrer, a victim of the 1991 Oakland Hills fire who runs an advocacy organization for fire victims. “But if the agent said you're fine, you're fully covered, then the company has to come up and do the right thing. Limits do get raised. You have to start out knowing you have to do your homework.”

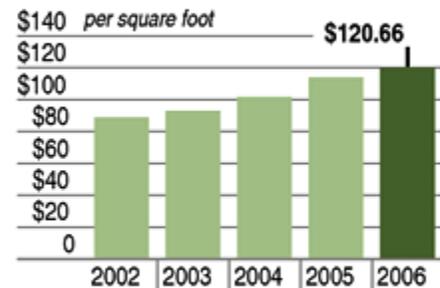
Homeowners insurance is designed to cover the cost of rebuilding, plus the loss of contents, landscaping and any dislocation expenses, such as apartment rent during construction. Land is not included. Because of that, most policy limits are well below what the house would sell for.

Given the spike in construction costs over the past four years, some victims of the latest fires may seek to band together to work with one builder in hopes of achieving savings.

Builders say the prices they charge for rebuilding homes drop if they can achieve economies of scale. Large merchant builders dominate San Diego's home building market, hammering together hundreds of tract homes in assembly-line fashion in master-planned communities.

AVERAGE HOMEBUILDING COST
Building costs rose sharply during the housing boom.

New, single-family houses in the Western United States

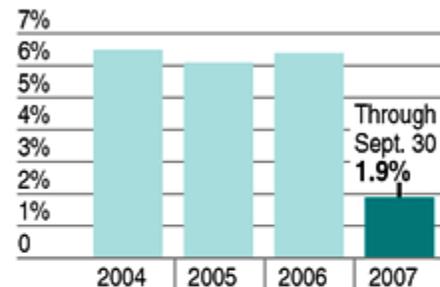


Value of lot is not included

PRODUCER PRICE INDEX BUILDING MATERIALS

The producer price index for building materials continues to rise nationwide, although at a slower pace than during the housing boom.

Percentage increase year over year



Building materials include lumber, copper, drywall, paint, concrete, steel and tile, among other products.

SOURCES: U.S. Census Bureau; U.S. Bureau of Labor Statistics; National Association of Home Builders

AARON STECKELBERG / Union-Tribune

Yet there's a question about whether many of these large merchant builders will step up with programs to aid fire victims. Industry experts say the builders are often ill-equipped to construct one, two or even five homes at a time in far-flung areas. Several tried to come up with programs after the Cedar fire but eventually pulled away.

“A lot of us in 2003 took a look at finding ways we could help,” said Doyle of Brookfield. “What we discovered was, as production builders, our business model is not set up to do one house at a time on somebody else's lot.”

Rebuilding one at a time is often substantially more expensive. In 2003, the least-expensive custom home Hallmark Communities rebuilt for Cedar fire victims cost \$120 per square foot, Hall said. Other custom homes cost more.

“You're going to save 15 percent if you can do a mass-produced kind of deal, where we're building about 10 at a time,” he said. “We need to have at least 10 to start at the same time to get any kind of efficiency.”

In Scripps Ranch, 81 families grouped together under the community's homeowners association to hire one builder to construct homes destroyed by the Cedar fire.

Some used the opportunity to build bigger houses than the ones lost in the fire, sometimes dipping into savings or taking out larger mortgages for the add-ons.

Stonefield Communities offered a handful of different interior floor plans. But the company also promised each house would have a different exterior facade, so no two would look alike.

But the biggest selling point was the price. Stonefield offered a base rebuilding rate of \$98 a foot. The company held its price even after lumber costs soared during the height of the housing boom.

Christian Anderson, who participated in Stonefield's program in Scripps Ranch, said that with upgrades he spent just under \$150 a square foot to rebuild his house.

The company is interested in working with other homeowners associations to rebuild fire victims' homes, said Julie Magner, vice president of sales and marketing.

“It was probably the most challenging thing as a company we've ever done,” Magner said. “And it's also probably the most rewarding professionally and personally.”

■Mike Freeman: (760) 476-8209; mike.freeman@uniontrib.com

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