

Keeping insurance values up to date

COMMERCIAL PROPERTY – BUILDING COSTS

The Importance of Updating Building Values

Your business represents a significant investment of time, effort and resources. Protecting it means regularly assessing the value of your buildings. Even as the property insurance market shows signs of stabilizing, maintaining accurate insurance values is essential to protecting your business. Regular updates help you:

- **Guard against unexpected costs** by aligning your policy with the true cost of property replacement, not just the original value.
- **Adapt to fluctuating construction prices** to protect against rising material and labor expenses, ensuring more effective recovery if a loss occurs.
- **Prevent coverage gaps**, which can lead to the risk of being underinsured when your assets are not properly valued.

Rising construction costs continue to be a significant challenge to accurately determining property replacement costs. Keeping pace with these changes helps ensure your coverage stays responsive to current market conditions.

Rising Materials Costs

In 2024, increases in construction material prices slowed compared to the dramatic surges experienced between 2020 and 2023.¹ However, overall material costs across market sectors remain nearly **40%** higher than pre-2020 levels.² For example, the price of steel mill products has risen **44.5%** over the last five years while cement has increased **37.4%**.³ Additionally, since July 2020, the cost of machinery and equipment has risen **24%**.⁴ These sustained increases indicate that building costs are likely to remain elevated due to an increased demand for materials, driven by natural disasters such as wildfires and severe weather events. Such factors make it difficult for businesses to reconstruct commercial properties for the values stated on their insurance policies.

Labor Cost Pressures

Construction industry labor costs continue to rise, driven by a combination of factors, including labor shortages, increased demand for skilled workers and rising wages.⁵ In recent years, the construction sector has faced significant challenges in attracting and retaining qualified labor, which has placed upward pressure on wages. In response, **90%** of surveyed firms provided higher pay, benefits or incentives to employees.⁶ Additionally, the need for specialized trades for complex, modern building projects may further contribute to cost increases. As the industry continues to face tight labor markets, higher labor costs may further impact the cost of construction.

Construction Industry Drivers

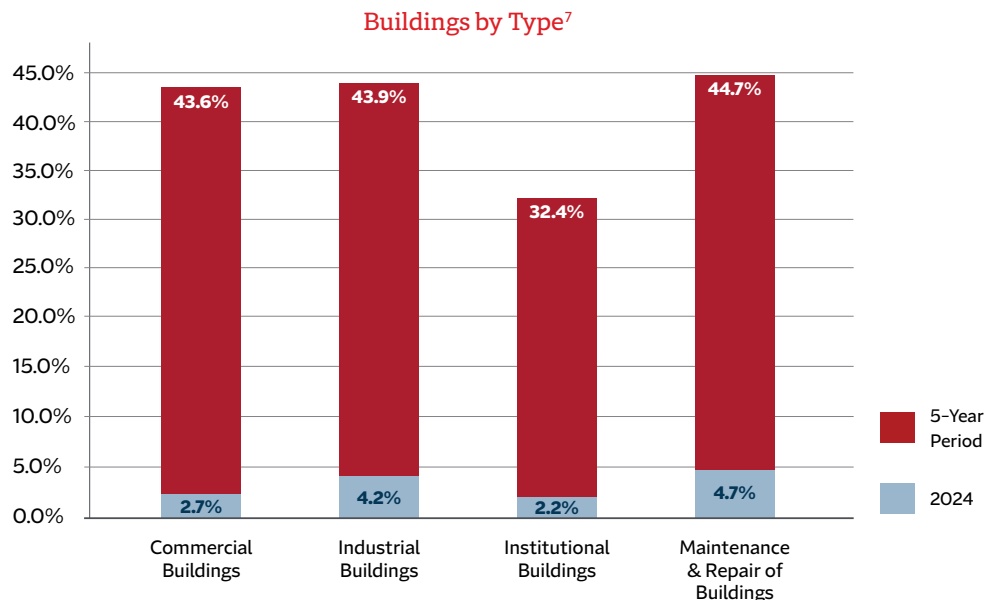
Potential changes in the global supply chain brought on by possible tariffs and trade restrictions could prompt construction companies to reassess their sourcing strategies. They may need to consider sourcing materials closer to home or invest in new technologies to mitigate the impact of these changes. Although this approach could lessen reliance on overseas suppliers, it may also lead to higher costs due to domestic price increases or the necessity of investing in advanced manufacturing processes. Additionally, shifting trade policies and the push for more localized supply chains could further strain resources, driving up both material and labor costs. As contractors adapt to these changes, they may face longer project timelines and additional expenses.

Rely on Travelers

While unexpected market conditions can introduce complexities, you can count on our industry expertise to help guide you through them. By combining tailored risk management strategies with accurate insurance to value (ITV) assessments, Travelers helps you stay aligned with current market dynamics and reduce the impact of rising costs.

View five-year and one-year price shifts in the charts below and on page 2.

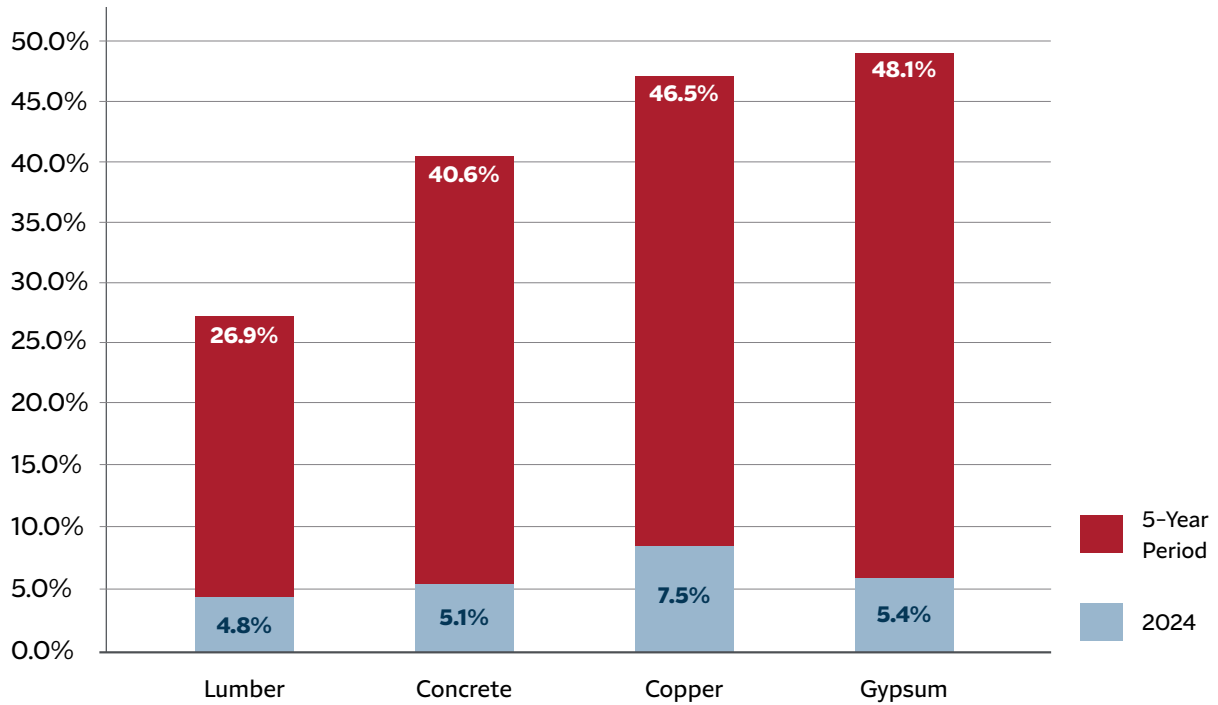
BUILDING CONSTRUCTION COSTS AND MATERIALS PRICE MOVEMENT JAN. 1, 2020 – JAN. 1, 2025



BUILDING CONSTRUCTION COSTS AND MATERIALS PRICE MOVEMENT

JAN. 1, 2020 – JAN. 1, 2025

Construction Materials⁸



*For more information about ITV, contact your Travelers representative.
Ask about our easy-to-use tools to help determine current values for property exposures.*

^{1,2,3,4} U.S. Bureau of Labor Statistics PPI, December 2024

^{5,6} The Construction Association: A Year in the Balance: The 2025 Construction Hiring and Business Outlook

⁷ Insurance Institute for Business & Home Safety (IBHS)

⁸ U.S. Bureau of Labor Statistics PPI, December 2024



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