



Knowing the importance of regular and accurate commercial property valuations in the process of acquiring or renewing insurance coverage is essential. Such **precision not only guarantees sufficient protection but also avoids coinsurance penalties** in case of a covered property loss.

Precise insurance-to-value (ITV) calculations are essential, as these provide an estimate of the complete cost to replace or restore insured property. Inaccuracies may arise from:

- ineffective property valuation methods
- deliberate underestimation of costs to obtain lower premiums
- uncontrollable factors like inflation

Alarming, industry data reveals that about **75% of commercial properties are underinsured by 40% or more.**

Considering these statistics, the seriousness of commercial property valuations becomes evident. In this article, we'll delve into ITV, consider factors that influence property value, elucidate the consequences of property undervaluation, and suggest best practices for enhancing property valuation measures.

## GRASPING INSURANCE-TO-VALUE (ITV)

A precise ITV calculation strikes a **balance between the insurance coverage a business secures and the estimated value of its commercial property**, ensuring ample protection after property losses. A property can have various assigned values:

- Market value: An estimate of the potential selling price in the current real estate market.
- Assessed value: An estimate created by the local municipality, typically used for determining property taxes.
- Replacement value: An estimate of the present cost to replace or rebuild a property.

Insurance professionals generally advocate using the replacement value for accurate ITV calculations. **Comprehensive property appraisals, inflation-adjusted fixed-asset records, or basic benchmarking tools can help** in estimating this value correctly.



## DETERMINING PROPERTY VALUE

Beyond replacement value estimates, businesses should **factor in direct and indirect expenses**, property age, building codes, property accessibility, and unique features to establish accurate property valuations.

## THE PERILS OF PROPERTY UNDERVALUATION

Inaccurate ITV calculations and **property undervaluation can lead to insufficient coverage** after property losses, potentially causing out-of-pocket expenses for rebuilding and serious financial setbacks. Moreover, property undervaluation can trigger coinsurance penalties, limiting the recovery amount following a loss.

## ENHANCING PROPERTY VALUATIONS

Businesses can improve their property valuation measures by hiring a reputable third-party appraiser, seeking additional resources, and consulting other parties. **Regular updates to property valuations are also crucial**—appraisals every three to five years are recommended, though the frequency may need to increase depending on various factors.

## NAVIGATING A VOLATILE PROPERTY MARKET — A CASE STUDY

### CLIENT CHALLENGE

Our multi-property real estate client faced unprecedented renewal premiums due to inflation-driven building value increases.

### OUR SOLUTION

Our dedicated Kapnick real estate team conducted a thorough, **independent review** of each location to ensure the right coverage and best value. Our **comprehensive analysis** included cost per square foot, unit costs as well as construction replacement estimates—all contributing factors that allowed us to **reduce the carrier's total cost percentage increase**.

This not only ensured our client's properties had the right coverage, but ultimately **saved the client roughly 15% in costs**.

At Kapnick, we recognize the importance of accurate property valuations and are committed to guiding you through this vital process. Many brokers will send renewals to market and allow the market to tell them the cost. **By investing in analytics and our own valuation resources, we're able to advocate for a fair market price.** Through initiative and advocacy, we're able to save our clients an average of 20% even in a volatile market.

Together, we can ensure you have the right coverage to safeguard your assets and your business. For more information, contact us at [info@kapnick.com](mailto:info@kapnick.com) or call 888.263.4656.