

## How should a home be evaluated in MUA?

This is a very common question, with no easy or conclusive answer. Every home is unique in some way, either due to its setting, its age, in what region it is built, or its condition or design. After discussing this at an office meeting it was suggested that we put together a few pointers and guidelines to help understand how best to evaluate a home. Obviously even with good clear guides, there will still need to be some discretion used to understand all the variables.

Until a home exceeds 15 – 20 years of age, we would recommend enrolling it at the amount it would take to replace the building. Here are a few pointers:

1. A home that is in reasonable condition with ongoing basic maintenance should not be evaluated for less than 50% of replacement cost.
2. If it has been kept in good condition and does not show significant wear and tear it should be higher.
3. Any renovations, or improvements such as cabinets, newer flooring, siding, roofing, insulation or windows should be taken into consideration.

Following are a few examples that a district secretary sent to us for consideration. They make a great illustration of some of the variables that a homeowner should consider when evaluating their home.

**Example 1:** 28 x 40 (1,120 ft<sup>2</sup>) house, purchased in 1999 along with a farm.

- Original purchase price - \$55,000
- Added 14 x 24 entrance - \$15,000 (Labour not included)
- In 2006, added a 30 x 30 garage and extended the entrance 6x14. Labour was self-performed except for the shingling - \$30,000
- In 2011, added 16 x 40 with a basement, kitchen reno, hired everything except for wiring - \$130,000
  - Total invested - \$230,000
- By 2018, the house has grown to 2,180 ft<sup>2</sup> with a 900 ft<sup>2</sup> garage. Mennonite Mutual evaluates the replacement cost at \$600,000.

### **Suggested steps for evaluation:**

- Double the original cost for inflation.
- Double the cost of the projects where the owner supplied his own labor.
- Take the result of the above calculations (\$350,000 +/-) as the minimum starting point.

- Since the house has been almost entirely rebuilt in the recent past, it could be reasonable to set the value as high as \$450,000 or \$500,000, depending on the overall condition of the house. 75 – 80% of replacement.

**Example 2:** Small house, purchased in 1995, (900 ft<sup>2</sup> +/-), built in the sixties or seventies on a small lot in a small town.

- Original purchase price - **\$16,000**
- Added new shingles, siding, some new windows, and some kitchen upgrades. Labor was self-performed.
- In today's market, this house would likely sell for between \$60,000 and \$70,000.

**Suggestion method for evaluation:**

- Calculating the replacement cost at \$250 per ft<sup>2</sup> comes to \$225,000.
- 50% of that comes to \$112,500.
- There are several upgrades which could be added to this. Possibly \$25 - \$50,000, depending on how well they have been maintained.

**Example 3:** 2,750 ft<sup>2</sup> house, built in 1979 on a basement, includes a 2-car garage, purchased along with a farm in 2022.

- Valued at \$125,000 at the time of purchase
- At \$250 per ft<sup>2</sup>, the replacement cost is \$687,500.

How is the current value of the house calculated in this case, when it is unlikely that the farm will be subdivided?

**Suggested method for evaluation:**

- 50% of replacement comes to \$345,000. If the house has undergone some upgrades or additional maintenance, it would seem reasonable to add some for that. Depending on how well the property is maintained going up to 70% of replacement cost may be advisable.

Here is some rationale for using an adjusted replacement value as a benchmark rather than the fair market value. If a home burns down, the fair market value of the property does not reflect the actual loss to the homeowner. If this was purely an investment property would make some difference, but in the end, the building will be replaced and in some cases the replacement cost could be significantly higher than the inflated value of the property.

Also, market values can vary widely by region, depending on the demand for property. Hence an adjusted replacement value seems like the fairest way to evaluate a property for the purpose of compensation for loss.

Best Regards, The Committee,