

360Value®

Overview of Property Reconstruction Cost Changes

Q4 2011

Current, localized, and detailed cost information on reconstruction labor and building materials is essential to create reliable, component-based replacement-cost estimates. To supply insurance professionals and underwriters with this valuable information, Xactware continually researches and validates reconstruction cost data at a highly localized level.

This process includes real-time feedback on reconstruction costs from tens of thousands

of contractors and claims adjusters in the field, extensive material and labor cost surveys, and analysis of more than three million actual damage repair estimates for claims each year. Xactware incorporates the reconstruction cost data into 360Value on a quarterly basis.

This report provides an overview of current reconstruction cost trends at the national and state levels. It also gives 360Value users a general understanding of reconstruc-

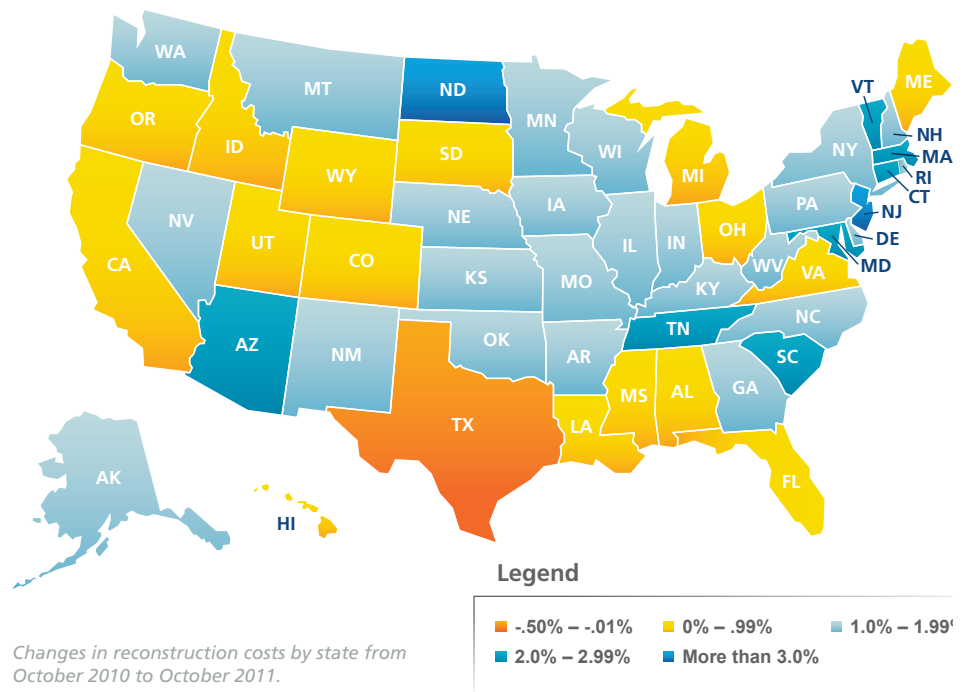
tion cost changes and how they may affect replacement-cost estimates over the next quarter. The data contained in this report should not be used as the basis for underwriting or renewal decisions as changes in replacement-cost estimates may vary dramatically at the individual property level.

National Overview

Overall reconstruction costs increased 0.39 percent this quarter at the national level, slightly less than the 0.49 percent increase observed last quarter. Over the past 12 months, overall reconstruction costs increased 1.09 percent. The fourth quarter 2011 update marks a new record in overall reconstruction costs at the national level. Costs are the highest since Xactware began tracking the data in 2002.

At the state level, only Texas experienced a decrease in overall reconstruction costs over the past year. The majority of states saw increases of less than 2 percent. New Jersey and North Dakota reported the largest increases — 3.29 percent and 4.85 percent respectively.

The map to the right provides all of the details.



The Impact of Demand Surge on Reconstruction Costs

2011 is shaping up to be one of the worst years on record for catastrophe losses. In addition to the effect on claims losses, catastrophes can have a lasting influence on reconstruction costs.

Some catastrophes can influence reconstruction costs by stopping or slowing the production and delivery of building materials. A common result of many catastrophes is market pressures that drive increases to reconstruction costs after an event, typically referred to as “demand surge.”

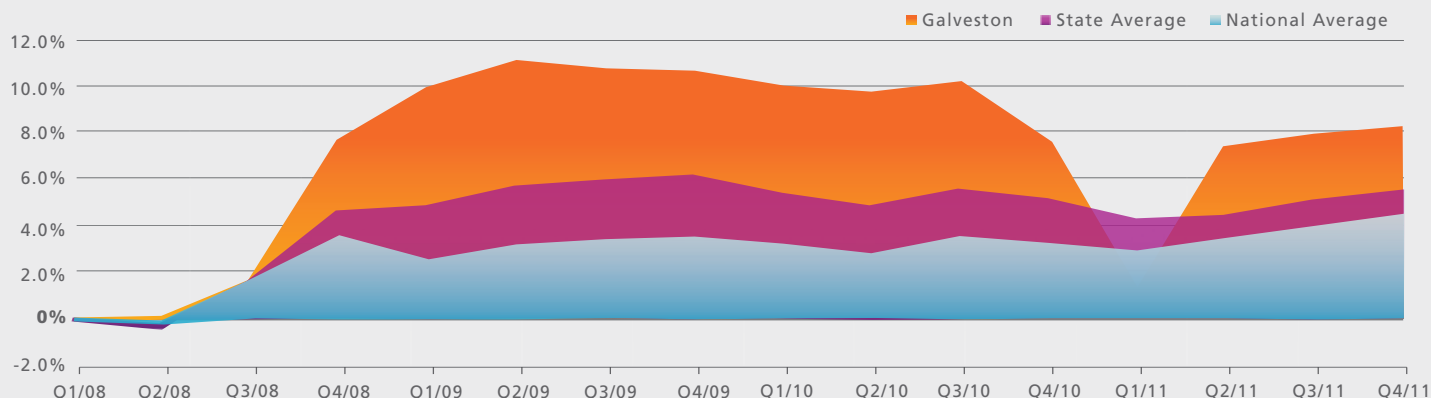
Demand surge is a simple result of changes in supply and demand. When catastrophes occur, reconstruction costs are impacted when supply cannot meet demand. While this can occur for materials costs, it more commonly impacts labor supply.

While the concept is simple, the impact of demand surge is challenging to measure. For each event, reconstruction cost changes, geography, and duration will differ. As such, there is no standard demand surge formula

to capture the expected impact of an event. The influence of each catastrophe on each geographic area must be closely monitored and changes in costs reported as they occur.

Demand surge typically doesn't appear until several weeks after the event and then levels off slowly. A common misperception about demand surge is that it's a short-term phenomenon. In fact, demand surge can take years to return reconstruction costs to normal.

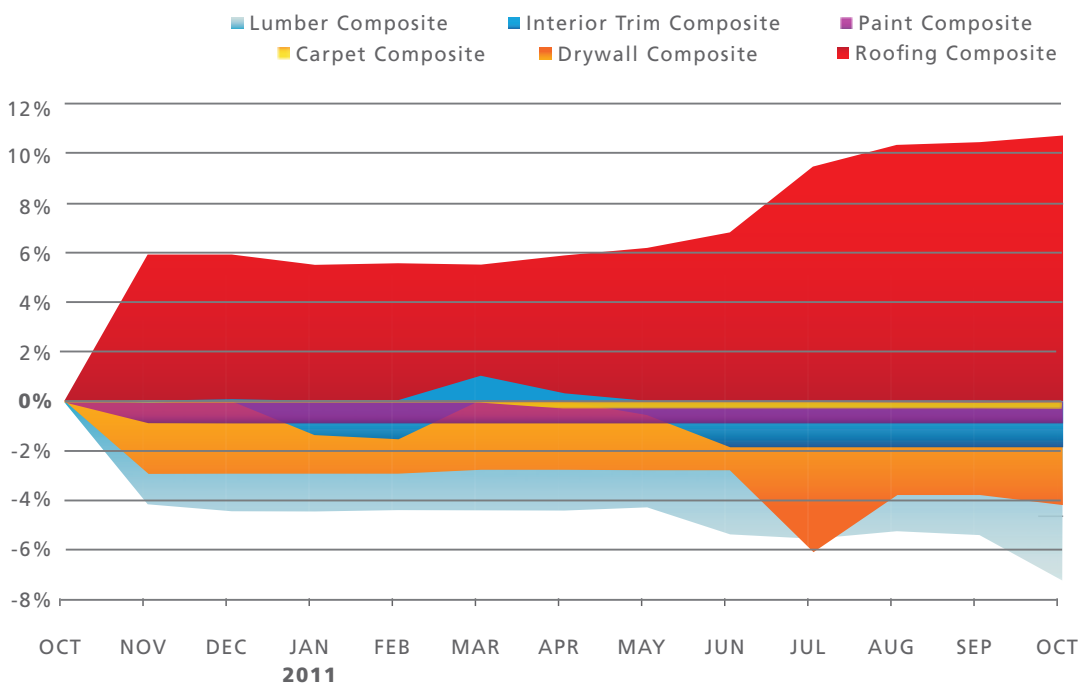
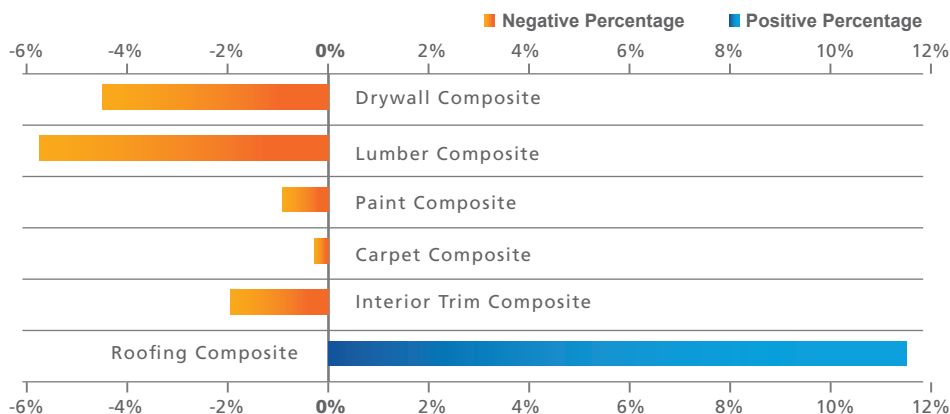
Hurricane Ike, which struck in September 2008, is a good example of the potential duration of demand surge. In July 2008, reconstruction costs in Galveston were virtually identical to the entire state of Texas. Three years after the hurricane, reconstruction costs in the Galveston area are still high compared to Texas and the rest of the country.



Material Cost Analysis

Over the past 12 months, most of the materials composites tracked in this report show a decrease in price at the national level. However, the overall change in materials costs between October 2010 and October 2011 increased 0.64 percent. Over the past three months, overall reconstruction costs at the national level increased a slight 0.28 percent.

One composite contributing to the overall increase in material costs is roofing. After significant price drops in the summer and early fall of 2010, the roofing composite has increased almost 12 percent since October 2010. This is by far the largest price increase of all material composites tracked by Xactware.

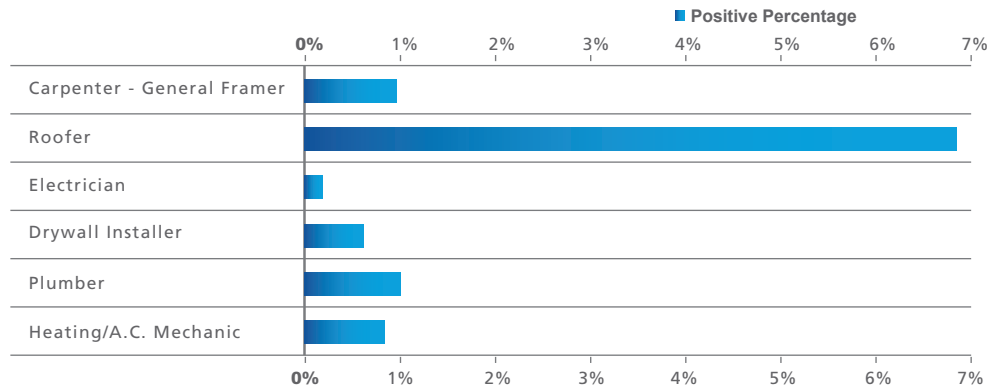


Cost changes for common building materials between October 2010 and October 2012 at the national level. These data are reported by composite, which are groupings of materials needed to complete a particular aspect of reconstruction.

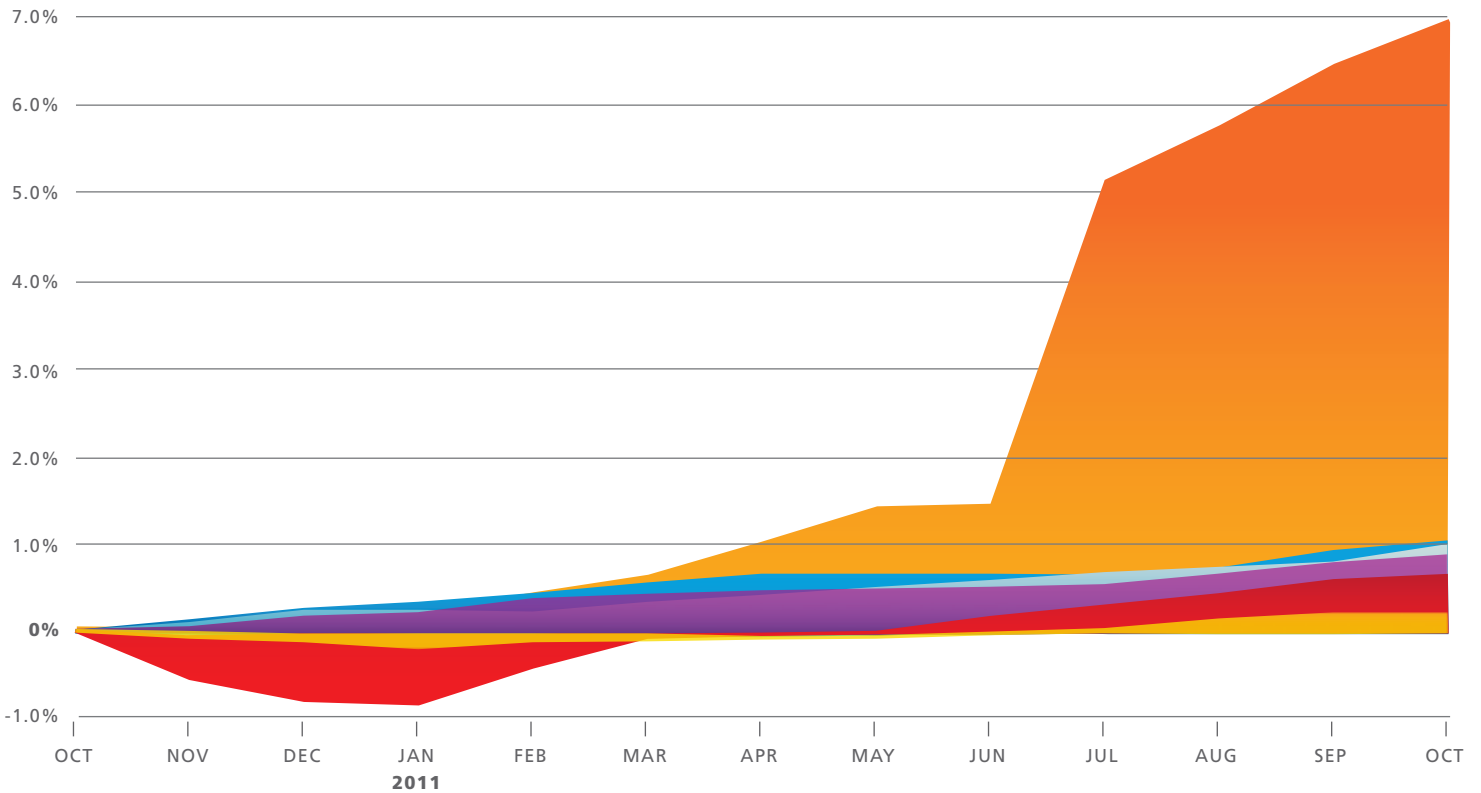
Labor Cost Analysis

After rare declines in labor costs in 2009 and 2010, labor rates have now been on a slow but steady increase since the beginning of the year. Overall labor rates increased 1.09 percent over the past year and 0.43 percent over the past three months.

All labor trades tracked in this report show increases over the past year, although most increases are 1 percent or less. The one exception is the roofing composite, which increased almost 7 percent over the past 12 months.



■ Heating / A.C. Mechanic ■ Plumber ■ Carpenter - General Framer
■ Electrician ■ Roofer ■ Drywall Installer



Changes in labor costs for some common trades between October 2010 and October 2011 at the national level. Labor costs include wages, burden, and overhead.

The data compiled in this summary are also available in Xactware's Industry Trend Reports, an online reporting tool that gives users an overview of market changes from one area to another, along with national and state averages. These reports contain information about price trends for roofing materials, drywall materials, and much more. Additional reports give users an idea of the movement for a "Basket of Goods" that includes items typically used in construction, such as shingles, paint, drywall, concrete, cabinets, and more.

For more information or to subscribe to Xactware's Industry Trend Reports, visit www.xactware.com/solutions/industry-trend-reports/.