

360Value®

Overview of Property Reconstruction Cost Changes

Q1 2012

Current, localized, and detailed cost information on reconstruction labour 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 thousands of

contractors and claims adjusters in the field, extensive material and labour cost surveys, and analysis of hundreds of thousands of 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 provincial levels. It gives 360Value users a general understanding of recon-

struction 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 at the national level decreased 0.19 per cent between October 2011 and January 2012, according to Xactware's reconstruction cost research. During the last 12 months, overall reconstruction costs are up 1.05 per cent in Canada.

Overall reconstruction costs grew in most provinces. Saskatchewan, Alberta, Manitoba, and Nova Scotia all reported increases

of more than 2 per cent over the past 12 months. Ontario is the only province to report a decrease in overall reconstruction costs, although the decrease is very small at less than 0.5 per cent. The map above provides further details.

Legend

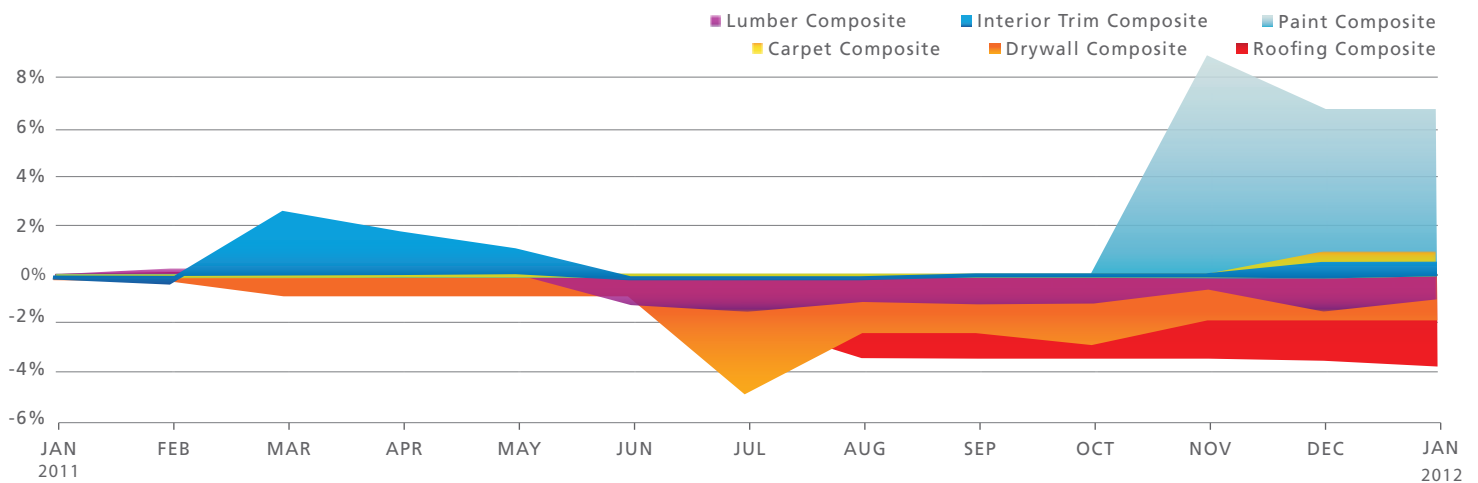
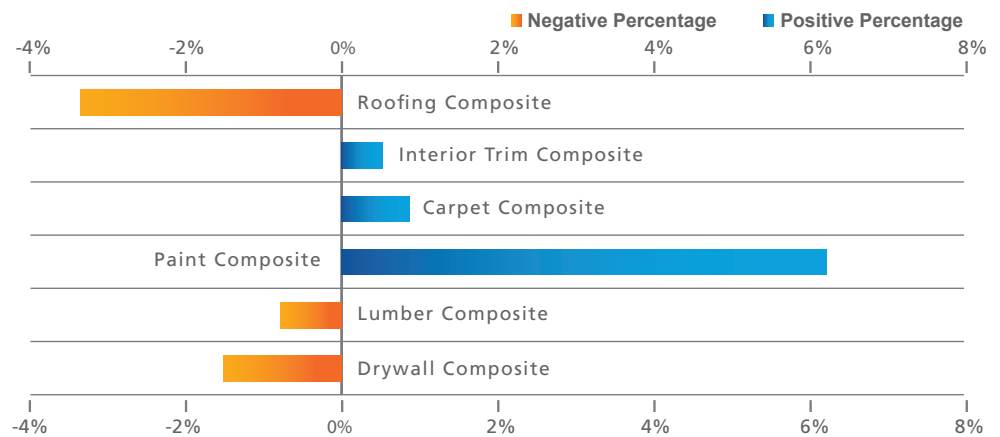


Changes in reconstruction costs by province from January 2011 to January 2012

Material Cost Analysis

Overall material costs for common repairs decreased 0.63 per cent between October 2011 and January 2012. Despite the recent decrease, overall materials costs in Canada are up 0.87 per cent during the past 12 months.

The most dramatic change in reported materials costs is the painting composite, which increased more than 8 per cent during the month of October. This growth can be attributed to increases in the costs of raw materials used to produce paint.



Cost changes for common building materials between January 2011 and January 2012 at the national level. These data are reported by composite, which are groupings of materials needed to complete a particular aspect of reconstruction.

Understanding the difference between costs for new construction and reconstruction

When an insurance buyer feels a replacement-cost estimate is too high or low, he or she often makes this judgment in comparison to the market value of the property. Another less common, but equally important, misconception about replacement-cost estimates is the comparison to new construction costs.

Value replacement-cost estimates are based on reconstruction costs. Based on Xactware's experience, reconstruction costs typically exceed new construction costs by at least 5 to 10 per cent. This percentage can be higher in individual cases, but it's difficult to provide a standard difference between the two.

Below are four factors that influence the differences between costs for new construction and reconstruction.

Economies of Scale

Reconstruction projects come up unexpectedly, so unknown factors can affect scheduling and job scope. These unknowns make it difficult for reconstruction contractors to plan projects, schedule work agreements with subcontractors, and buy materials in bulk. This inability to plan often eliminates the opportunity for labour and material discounts enjoyed by new construction contractors and keep reconstruction costs higher as a result.

Rebuilding to the Previous Specifications

Property reconstruction often requires the building to be restored to its original condition, which can increase reconstruction costs. This is particularly true for older homes where materials commonly used in new construction may not be appropriate, or where property characteristics, such as ceiling height, may differ from current building practices.

Speed of Construction

When a building needs to be reconstructed after an event, the work is typically accelerated to get the homeowner back in his or her home as soon as possible. To complete the job quickly, builders may hire additional labourers or pay a premium for materials, resulting in higher costs.

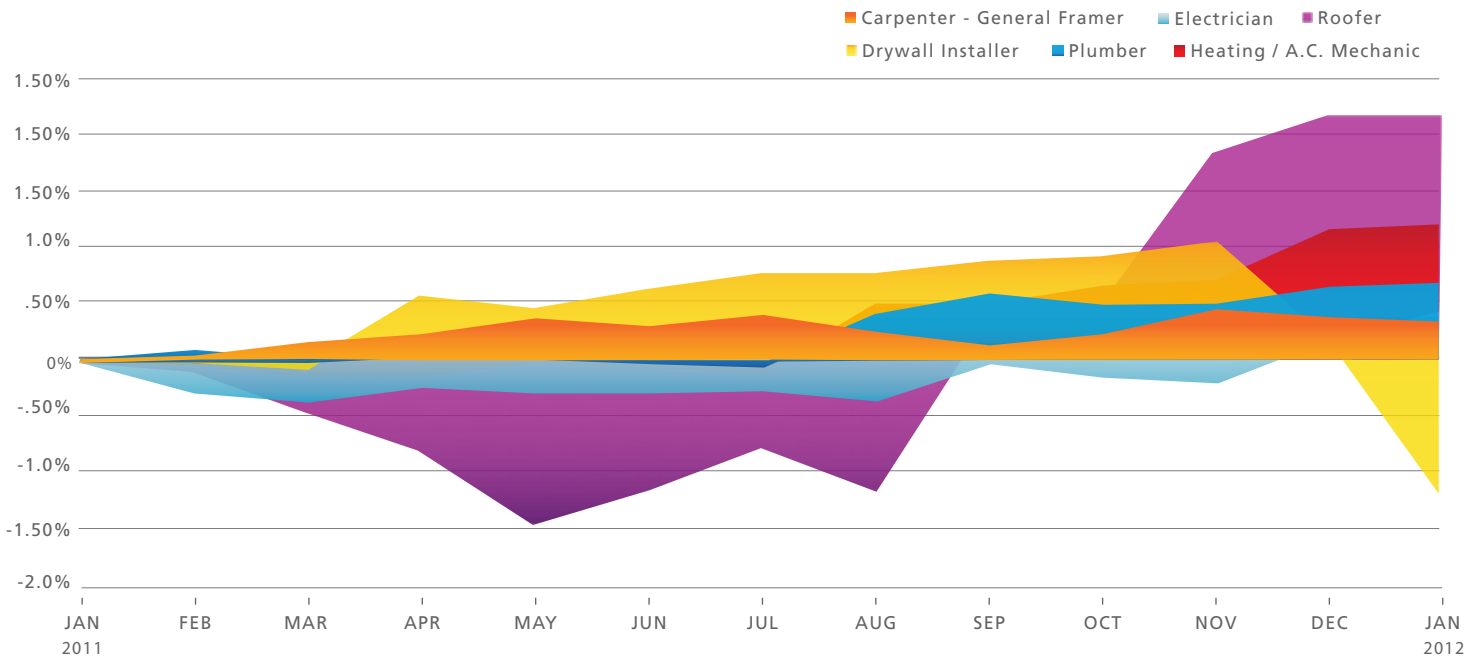
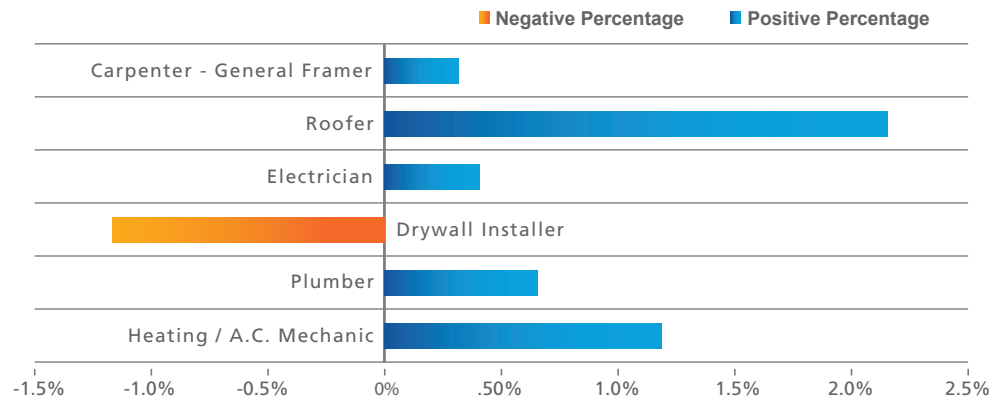
Site Accessibility

Reconstruction contractors are often required to work around landscaping or nearby structures, making site access more difficult and costly.

Labour Cost Analysis

Labour rates at the national level increased 0.25 per cent between October 2011 and January 2012. The year-over-year change over the past 12 months is a 0.89 per cent increase.

Following the overall trend of labour rates at the national level, most individual labour trades reported increases during the past 12 months. Drywall installation is the only exception. In fact, labour rates for drywall installers are down more than 2 per cent in the past two months.



Cost changes for common building materials between January 2011 and January 2012 at the national level.

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/.