

360Value®

Overview of Property Reconstruction Cost Changes

Q1 2012

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 thou-

sands of contractors and claims adjusters in the field, extensive material and labor cost surveys, and analysis of more than 5 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-

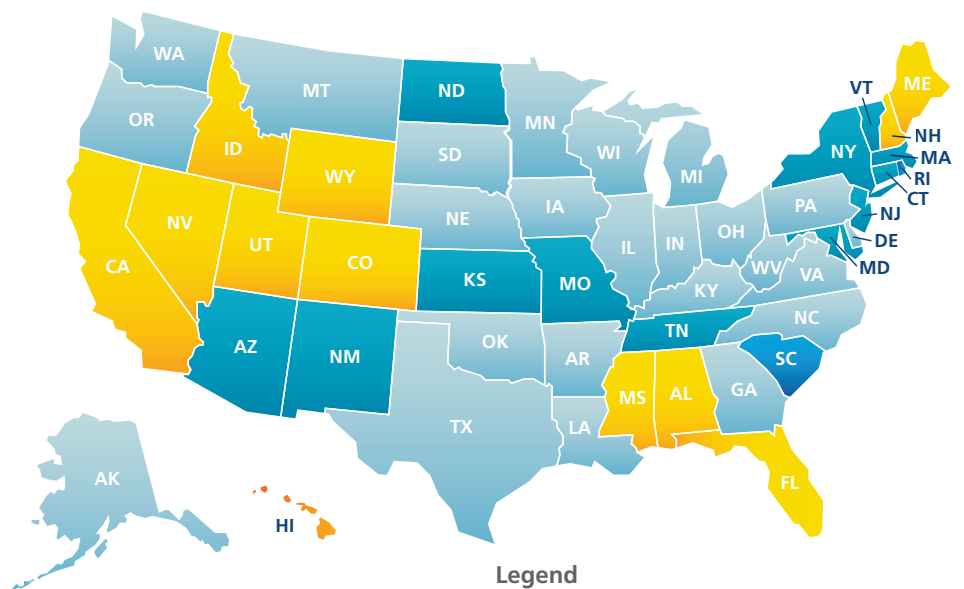
tion cost changes and how they may affect replacement-cost estimates over the next quarter. The data contained in this report should not be used as the basis for underwriting or renewal decisions as changes in replacement-cost estimates may vary dramatically at the individual property level.

National Overview

Overall reconstruction costs increased 1.39 percent during the past 12 months. However, reconstruction costs are unchanged during the past quarter. This quarter ends a streak of three consecutive quarters in which overall reconstruction costs have increased.

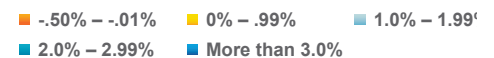
All states with the exception of Hawaii reported increases in overall reconstruction between January 2011 and January 2012. The majority of states saw increases ranging between 0.5 percent and 2.5 percent. South Carolina and Rhode Island experienced the largest increases of more than 3 percent.

The map to the right provides all of the details.



Changes in reconstruction costs by state from January 2010 to January 2011.

Legend



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.

360Value 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 percent. 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 labor 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 laborers or pay a premium for materials, which results in higher costs.

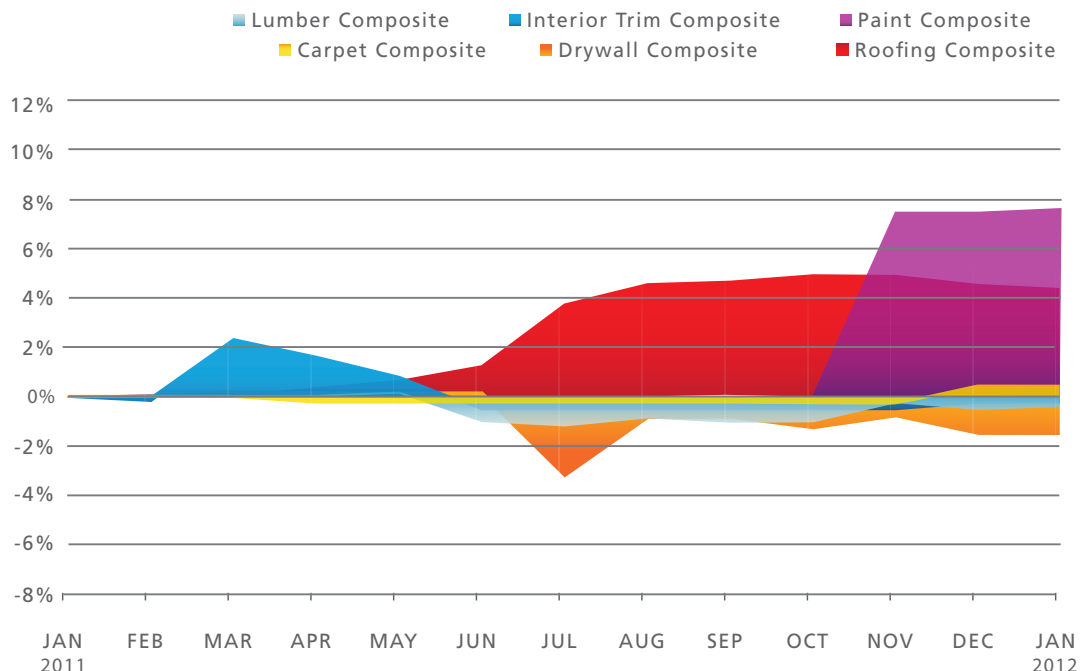
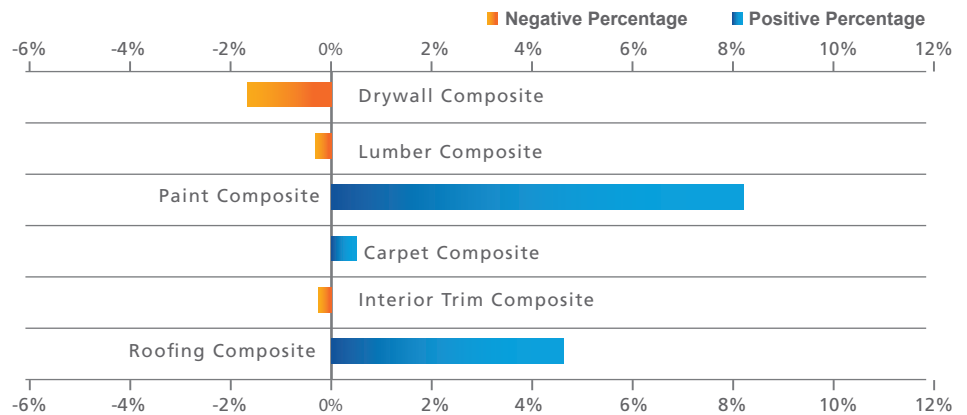
Site Accessibility

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

Material Cost Analysis

Overall costs for materials composites tracked by Xactware increased 1.12 percent during the last 12 months. During the past three months, overall reconstruction costs at the national level decreased a slight 0.35 percent.

The most dramatic change in reported materials costs is the painting composite, which increased more than 8 percent in October. This growth can be attributed to increases in the costs of raw materials used to produce paint. Recent increases in the roofing composite have leveled off over the past two quarters but are still more than 4 percent higher than one year ago.

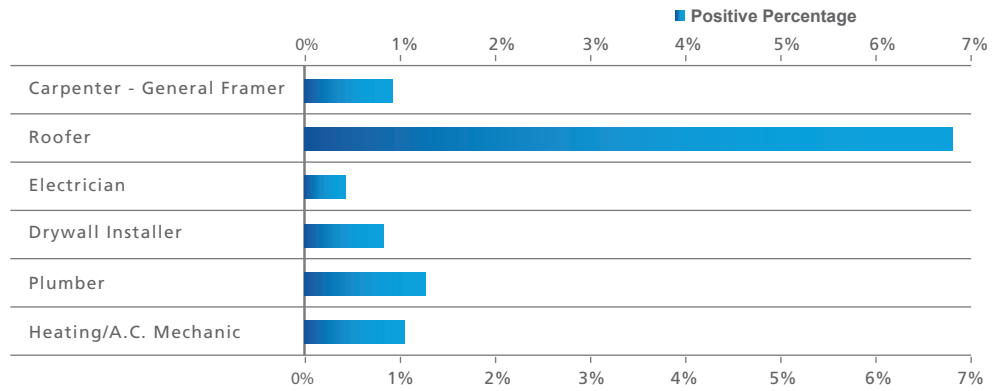


Cost changes for common building materials between January 2011 and January 2012 at the national level. These data are reported by composite, which are groupings of materials needed to complete a particular aspect of reconstruction.

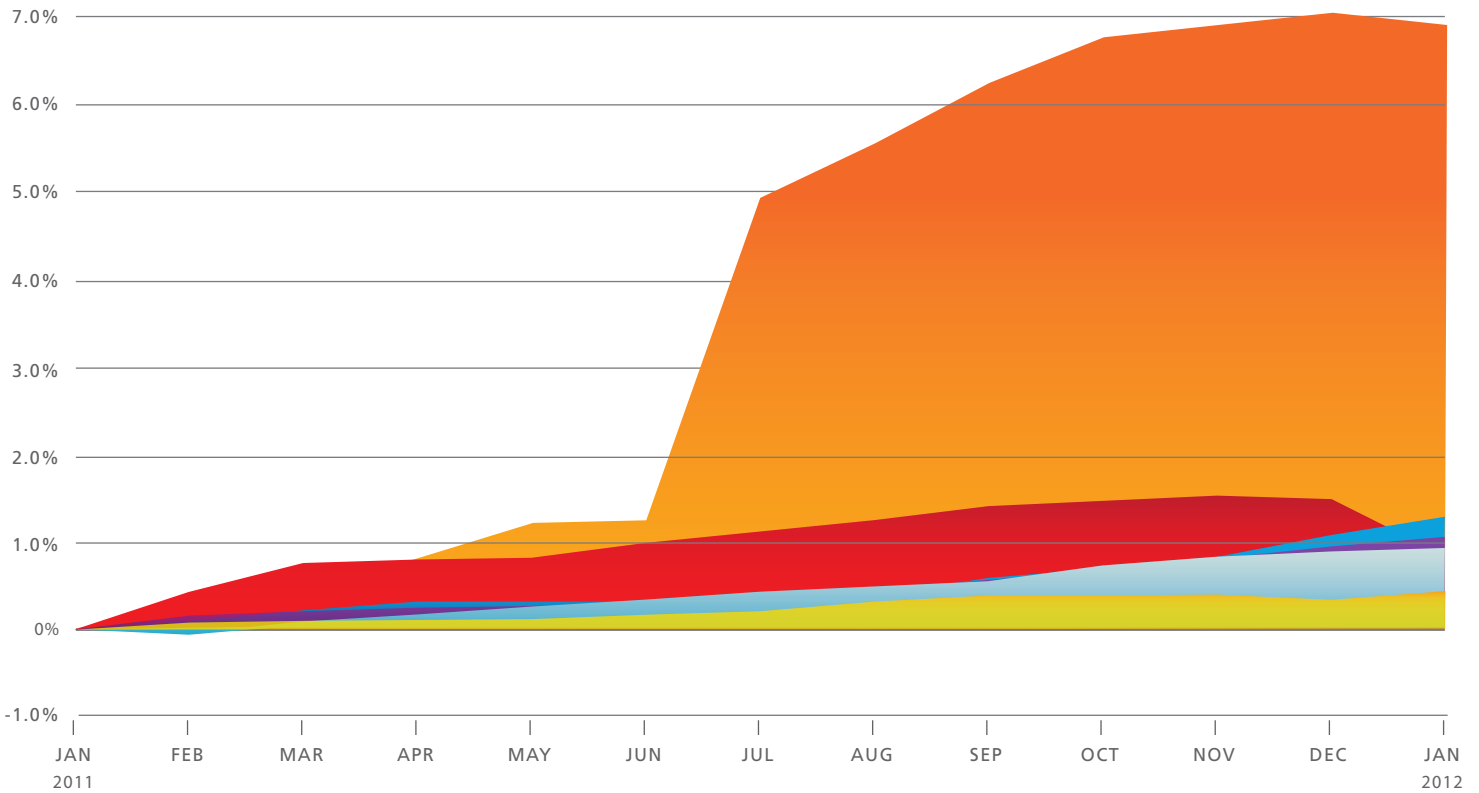
Labor Cost Analysis

Overall labor rates increased 1.15 percent between January 2011 and January 2012, but are virtually unchanged during the past three months.

Most labor trades tracked in this report show slight increases of about 1 percent during the past year. The roofing composite is the one exception, which significantly increased due to the volume of roofing jobs that resulted from the record-breaking severe thunderstorm season in the spring of 2011. Roofing labor costs have leveled off during the past three months, but are still almost 7 percent higher than January 2011.



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



Changes in labor costs for some common trades between January 2011 and January 2012 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/.