

360Value®

Overview of Property Reconstruction Cost Changes

Q2 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, the underlying reconstruction cost data used to develop 360Value® estimates is continually researched and validated at a highly localized level.

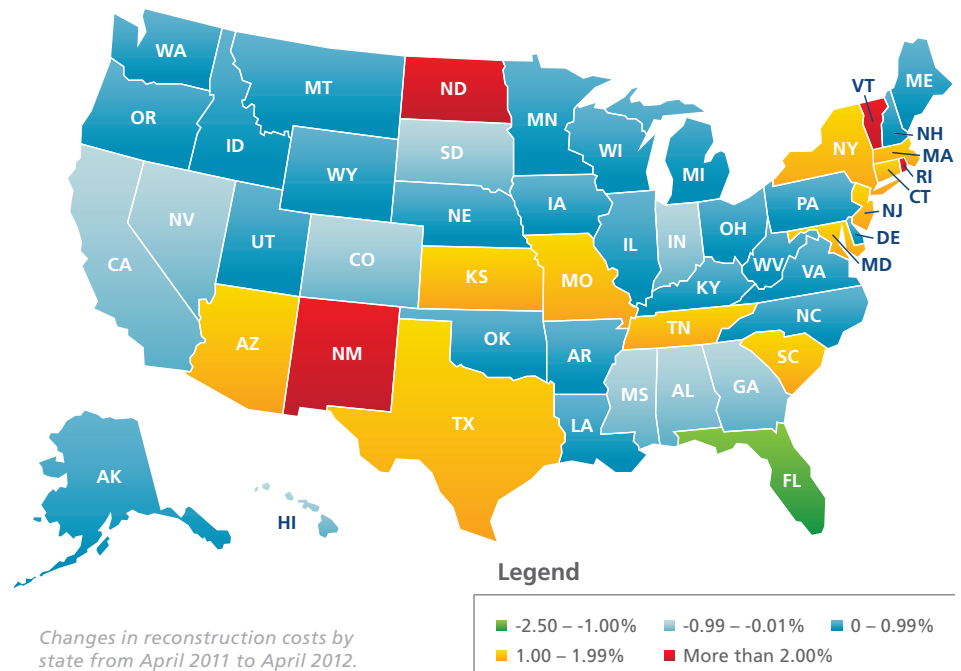
Xactware has developed a comprehensive building cost research process that includes real-time feedback on reconstruction costs from tens of thousands of contractors and claims adjusters in the field, extensive material and labor cost surveys, and analysis of more than 5 million actual damage-repair estimates for claims each year. Updated reconstruction cost data is incorporated 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 how key material and labor prices have trended over the past 12 months. 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

From April 2011 to April 2012, overall reconstruction costs increased 1.12 percent in the United States. During first-quarter 2012, reconstruction costs increased 0.25 percent from fourth-quarter 2011.

At the state level, almost half the states experienced increases of less than 1.00 percent. Only five states saw increases of more than 2.00 percent, most notably with Rhode Island seeing an increase of 3.00 percent. Of the ten states that experienced decreases, Florida had the largest, falling 2.49 percent from the previous year. Since January 2009, overall reconstruction costs in Florida are down almost 7.00 percent.



Managing Customer Concerns about Reconstruction Costs

Let's face it. Who wouldn't have concerns about buying something they don't think they'll ever need, and then have to pay more for it than they think they should? In most cases, homeowners are required to have insurance coverage, and when dealing with customers' concerns about cost, it's important to be able to explain why it's in the policyholder's best interest to buy enough insurance to cover a loss.

For homeowners insurance, this means buying enough coverage to pay for the complete reconstruction of a home. Anything less may leave the homeowner vulnerable to tremendous financial stress in the event of a loss.

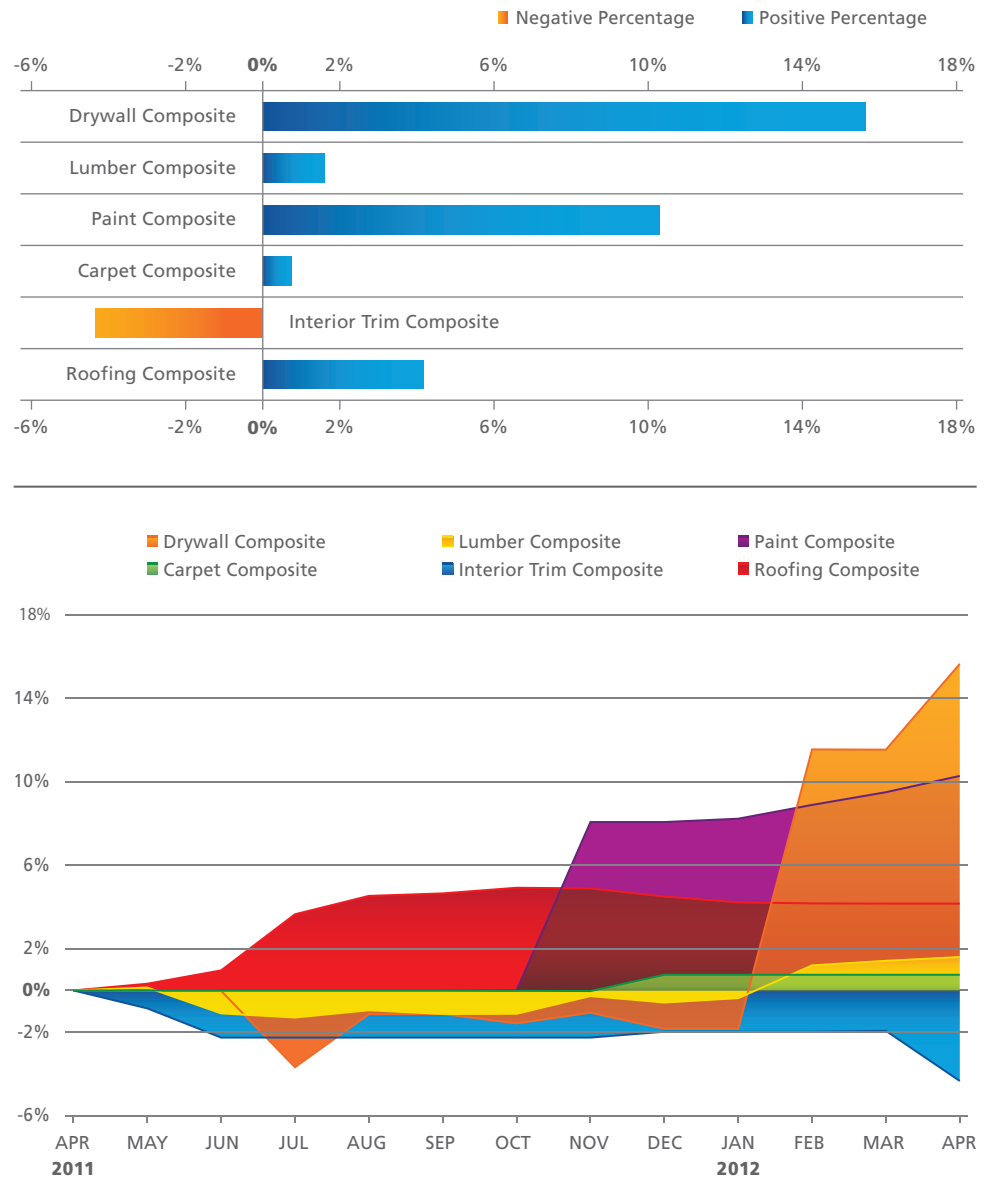
Historically, and in many parts of the country today, insuring a home to the full reconstruction cost causes little concern,

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Material Cost Analysis

At the national level during the past 12 months, overall costs for material composites tracked by Xactware increased 0.68 percent. During the past three months, material costs increased 0.37 percent.

The main driver of this increase was the cost of drywall, which has increased more than 15 percent since the beginning of 2012. Xactware's research indicates price increases are a direct result of the struggling construction industry. Despite a strong effort by manufacturers to contain costs, drywall demand is too low to sustain production without increasing costs.



Cost changes for common building materials between April 2011 and April 2012 at the national level. This data is reported by composite, a grouping of materials needed to complete a particular aspect of reconstruction.

Managing Customer Concerns about Reconstruction Costs (continued)

as the reconstruction cost is typically lower than the home's market value — the value at which the property, including land, could be purchased or sold. However, in some parts of the country, the housing market has experienced sharp drops in value, making it more common for the reconstruction cost of a home to exceed the market value.

As a result, some homeowners are being asked to insure properties for more than they are worth in a real estate transaction. In Florida, there are examples of Coverage A limits

exceeding the market value of a home by more than 100 percent. For many, this is an unpleasant shock that's not easily understood.

That's why it's critical for insurers and agents to explain:

- why insurance should be purchased for the reconstruction cost of the home and the potential consequences of not doing so
- how the reconstruction cost of a home differs from the market value, new construction costs, and other seemingly related values

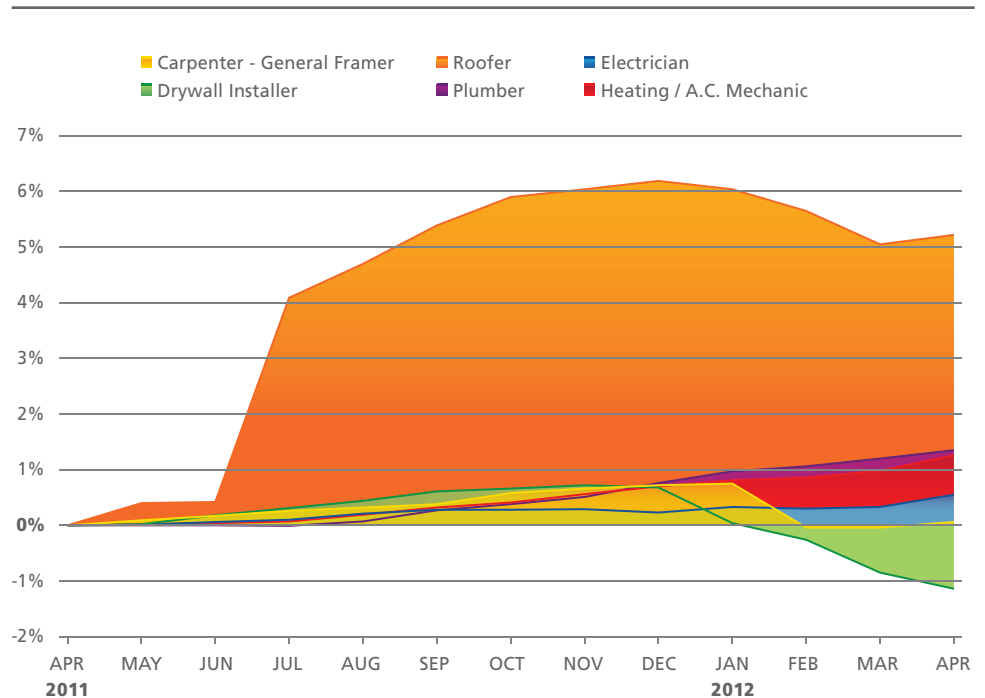
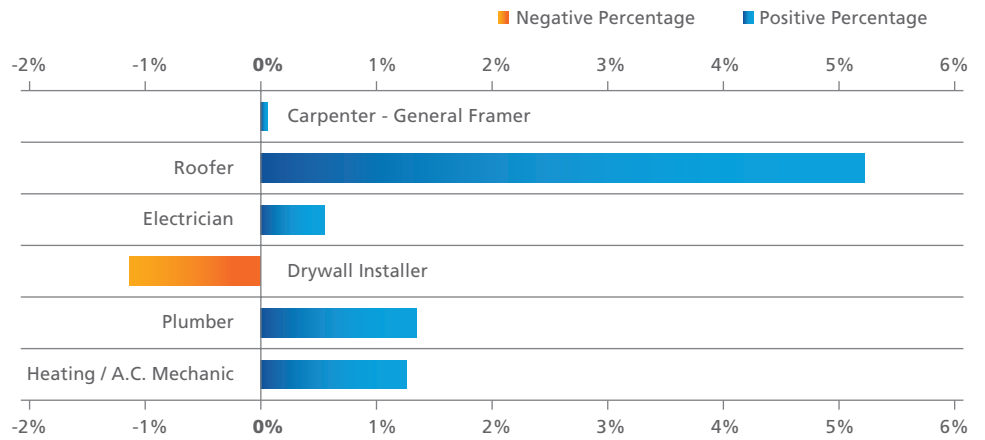
- factors that influence changes in reconstruction costs over time and the importance of maintaining the proper insurance coverage for the life of the policy

For information to help you explain these concepts to policyholders, visit our [website](#) dedicated to the topic of understanding the difference between market value and reconstruction cost estimates.

Labor Cost Analysis

Overall retail labor rates increased 0.71 percent between April 2011 and April 2012 but showed a slight decrease of 0.19 percent during this past quarter. Installation of drywall, which decreased more than 1.00 percent during the first quarter of 2012, greatly contributed to the overall decrease.

Of the common labor trades tracked in this report, drywall installer is the only one to show a decrease during the past 12 months, with most of the change occurring since the beginning of 2012. This is a possible consequence of drywall installers absorbing part of the materials increase in their bottom line. Labor cost for roofing contractors has leveled off after significant increases resulting from the record-breaking severe thunderstorms in 2011.



Changes in labor costs for some common trades between April 2011 and April 2012 at the national level. Labor costs include wages, burden, and overhead.

The data compiled in this summary is 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. The 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/



Xactware is a member of the Verisk Insurance Solutions group at Verisk Analytics.