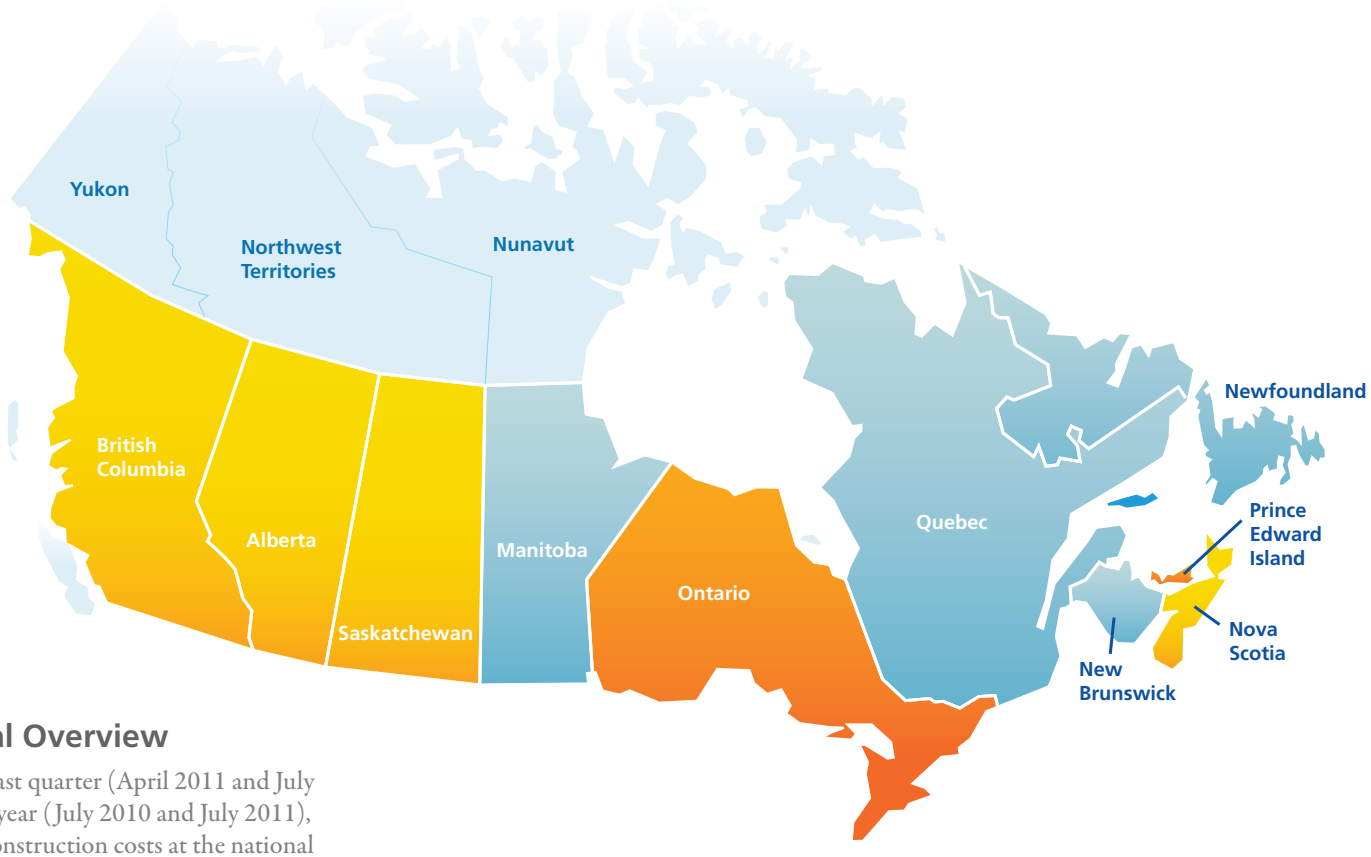
360Value®

Overview of Property Reconstruction Cost Changes Q3 2011

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 reconstruction 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.



Changes in reconstruction costs by province from July 2010 to July 2011

National Overview

Over the past quarter (April 2011 and July 2011) and year (July 2010 and July 2011), overall reconstruction costs at the national level increased 0.31 per cent between, according to Xactware's reconstruction cost research.

Despite the modest increase in overall reconstruction costs at the national level, overall reconstruction costs decreased in six of the 10 Canadian provinces. Ontario and Prince Edward Island experienced the most significant drop of at least 1.0 per cent. Manitoba, New Brunswick, Newfoundland and Labrador, and Quebec all experienced increases of less than 0.5 per cent between July 2010 and July 2011.

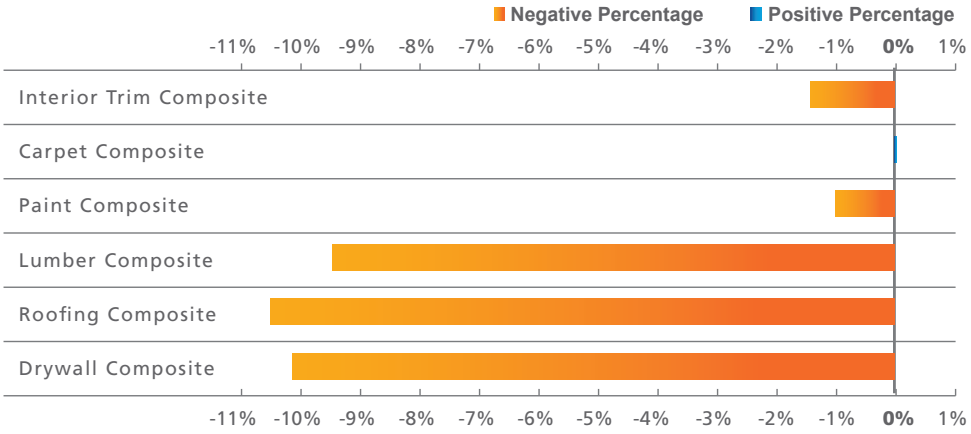
Material Cost Analysis

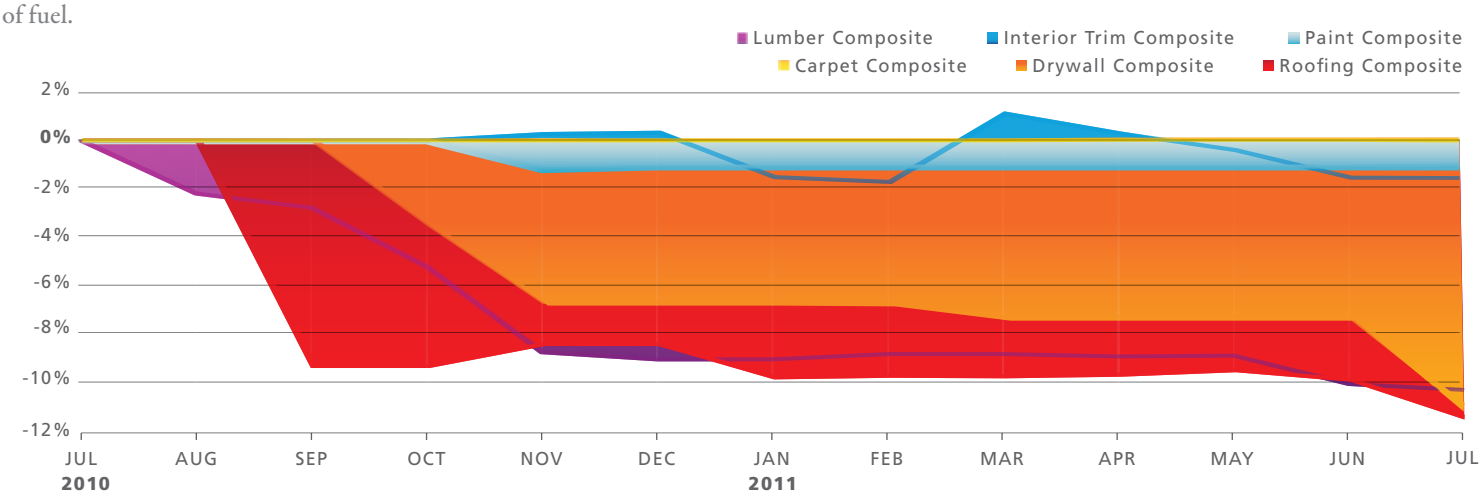
Overall material costs for common repairs at the national level are virtually unchanged between April 2011 and July 2011. The year-over-year change between July 2010 and July 2011 is a decrease of 0.43 per cent.

Year over year changes in some of the more common building materials show significant decreases. The drywall, lumber, and roofing composites all show price decreases in the range of 10 per cent. Lumber prices continue to fall, even after lumber mills decreased production in the spring of 2010 due to reduced demand related to the stagnant construction industry.

The costs of roofing materials remain steady over the past 11 months after a sharp price drop last August. Costs of petroleum-based asphalt shingles, one of the more common roofing materials, are influenced by the price of fuel.

While the run-up in crude oil prices this spring has yet to influence roofing materials costs in Canada, fuel does play an important role in overall reconstruction costs. Please see the sidebar for more information.





Cost changes for common building materials between July 2010 and July 2011 at the national level.
These data are reported by composite, which are groupings of materials needed to complete a particular aspect of reconstruction.

The Impact of Fuel Costs on Reconstruction Costs

Of the many factors that influence changes in reconstruction costs, fuel costs may be one of the least obvious, but can have a significant impact. Fuel costs influence overall reconstruction costs in three ways, materials costs, labor, and equipment use.

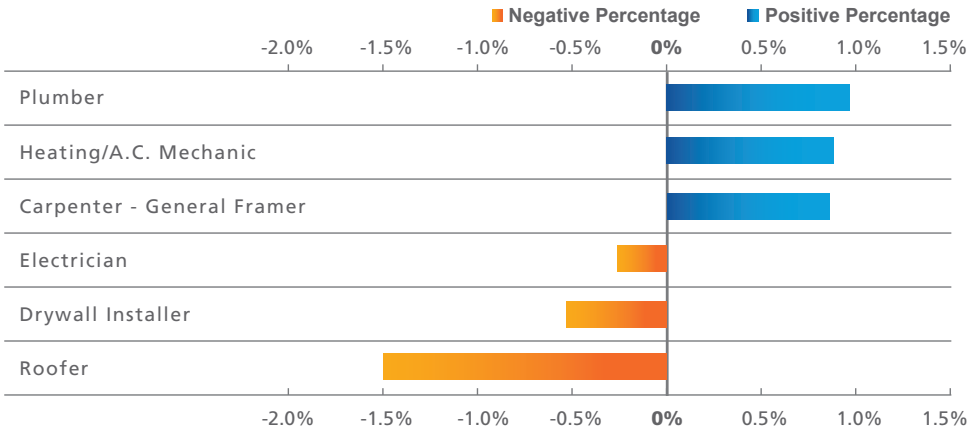
The cost of crude oil has a direct impact on the costs of petroleum-based products including shingle roofing, vinyl siding, and carpet. Composition roofing shingles (asphalt), for example, spiked more than 60 percent after crude oil prices reached record highs in the spring of 2008. This is a significant increase considering composition shingles accounted for approximately 20% of all property claim dollars spent in the United States between 2006 and 2010.

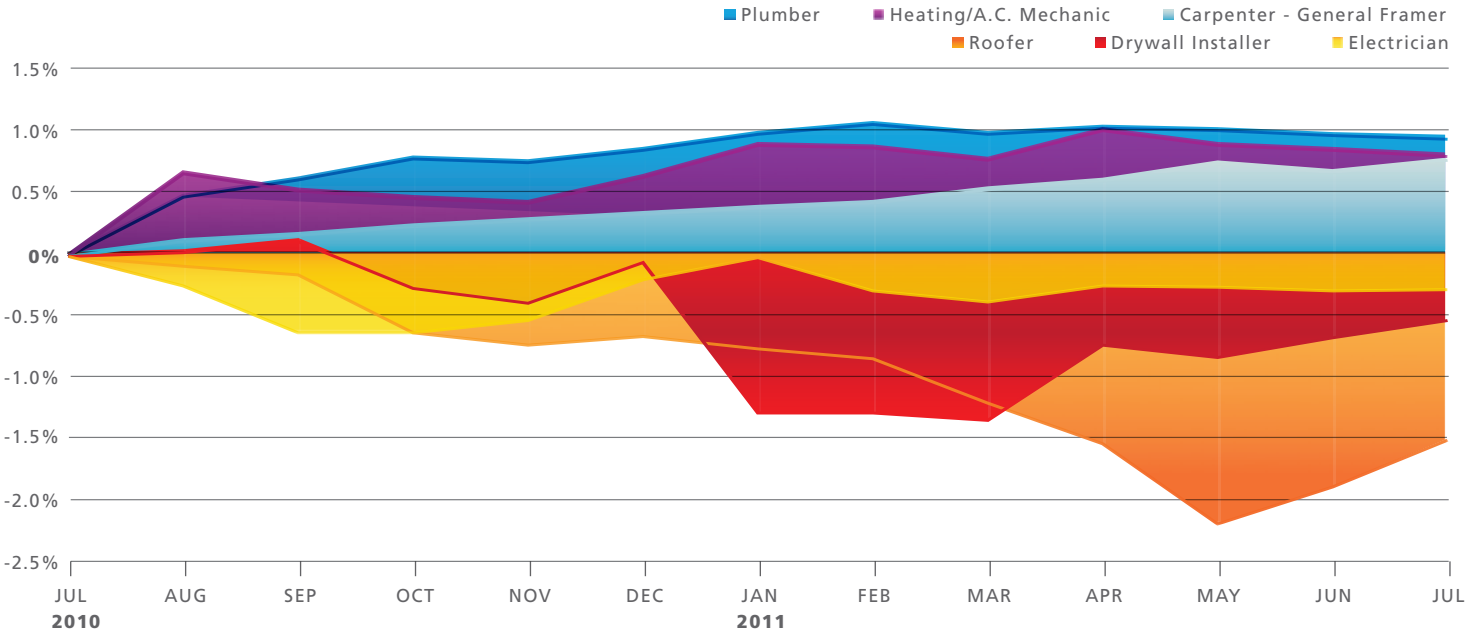
Fuel prices also influence transportation costs associated with the distribution of reconstruction materials. Transportation is also the driving force behind the impact fuel costs have on labor. Finally, fuel costs influence the overall cost of using gas powered heavy equipment on a construction site.

Labour Cost Analysis

Labour rates at the national level increased slightly at 0.18 per cent between April 2011 and July 2011. The year over year change between July 2010 and July 2011 is an increase of 0.51 per cent.

Following the overall trend of labour rates at the national level, most individual labour trades show modest increases or decreases between 1.0 and -1.0 per cent. Roofing is the only trade that falls outside this range with a year-over-year decrease of about 1.5 per cent. However, the recent trend shows roofing labor rates on the rise, with an increase of almost 0.7 per cent since May.





Changes in labour costs for some common trades between July 2010 and July 2011 at the national level. Labour 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 so forth.

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

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