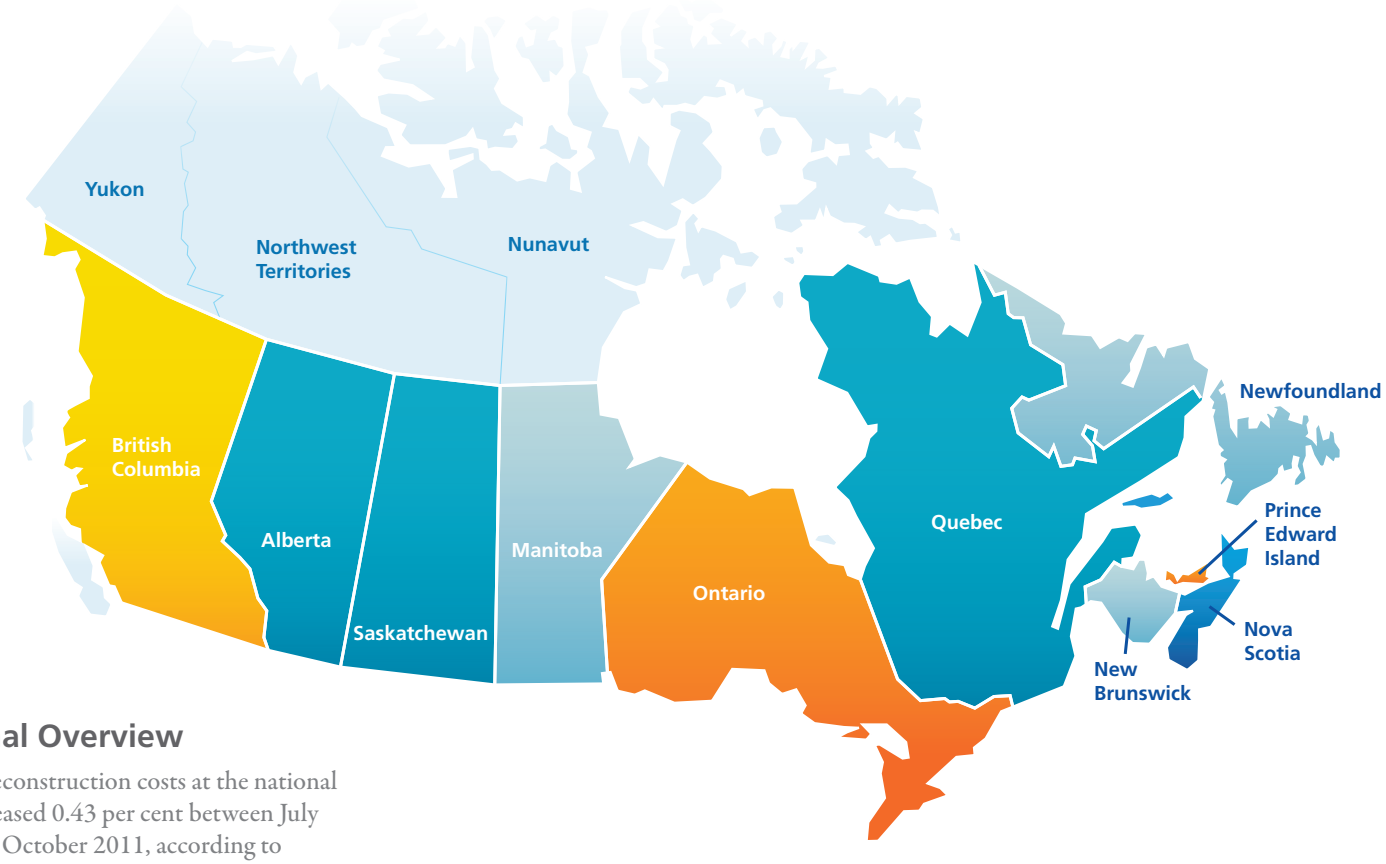
360Value®

Overview of Property Reconstruction Cost Changes Q4 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 October 2010 to October 2011

National Overview

Overall reconstruction costs at the national level increased 0.43 per cent between July 2011 and October 2011, according to Xactware's reconstruction cost research. From October 2010 to October 2011, reconstruction costs increased 0.89 per cent.

Following the trend at the national level, overall reconstruction costs at the province level grew in most provinces. Saskatchewan, Alberta, Quebec, and Nova Scotia all reported increases of more than 2 per cent over the past 12 months. Prince Edward Island and Ontario were the only provinces to experience a decrease in overall reconstruction costs — both less than 1 per cent. The map above provides further details.

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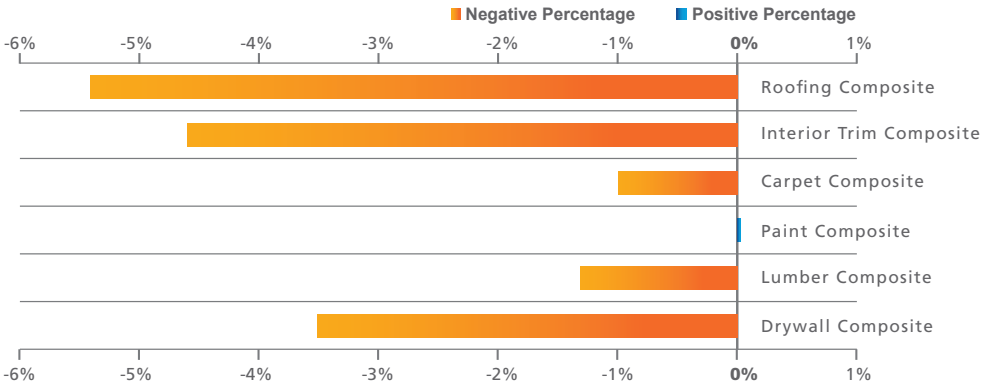
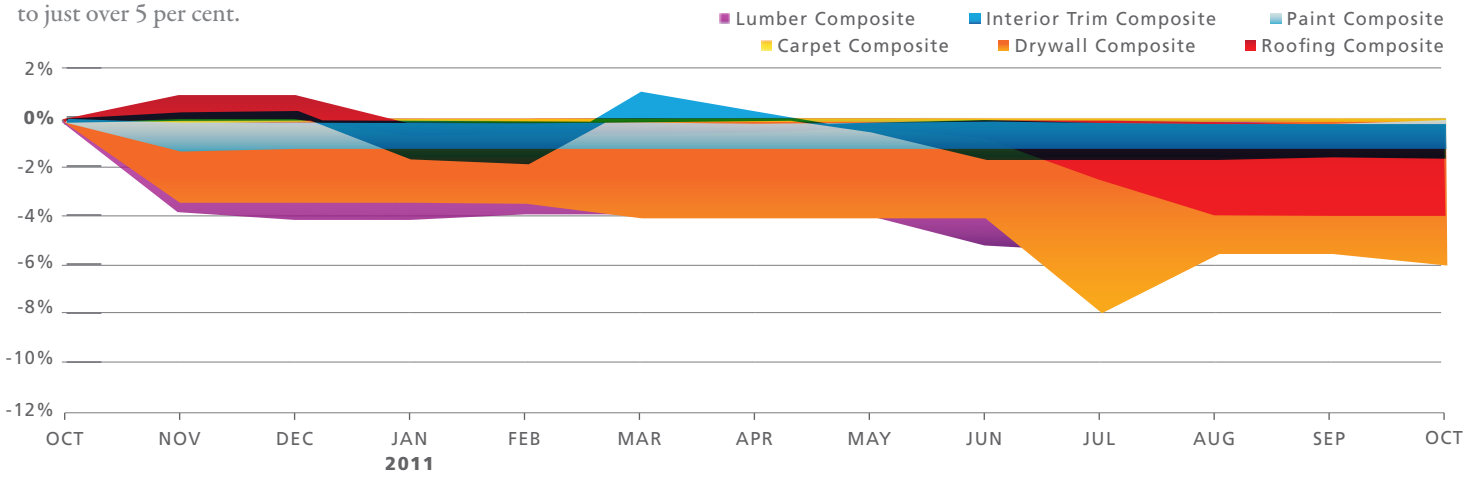
Material Cost Analysis

Overall material costs for common repairs at the national level increased 0.6 per cent between July 2011 and October 2011. The increase over the past quarter accounts for the majority of the 0.87 per cent increase observed over the past 12 months.

Despite the increase in overall reconstruction costs at the national level, most material composites tracked in this report show price decreases over the past 12 months. Of particular interest are the drywall, lumber, and roofing composites, which declined approximately 10 per cent between July 2010 and July 2011. The decreases for these composites are significantly less in the 12 months between October 2010 and October 2011, ranging from 3.5 per cent to just over 5 per cent.





Cost changes for common building materials between October 2010 and October 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 Demand Surge on Reconstruction Costs

In addition to potential claims losses, catastrophes, such as Hurricane Igor and the Slave Lake wildfires, can drive changes to reconstruction costs, influencing replacement cost estimates.

Some catastrophes can influence reconstruction costs by stopping or slowing the production and delivery of building materials. Another result of many catastrophes are market pressures that drive reconstruction costs after an event, typically referred to as "demand surge."

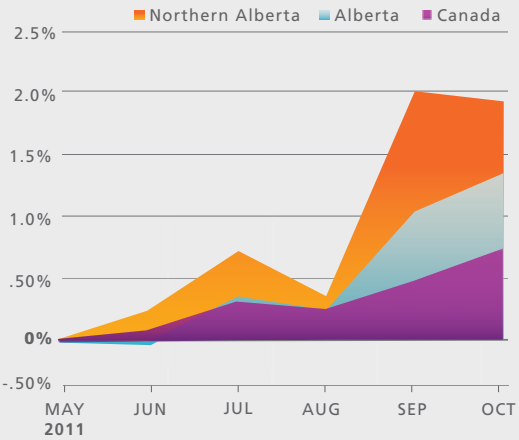
Demand surge is a simple result of changes to supply and demand. When catastrophes occur, reconstruction costs are impacted when supply cannot meet demand. While this can occur for materials costs, it more commonly impacts labor supply.

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.

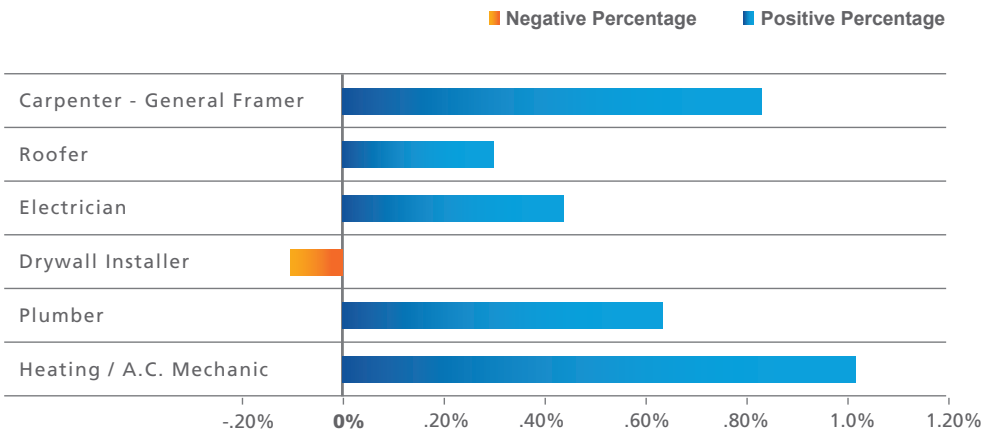
Demand surge is already appearing in northern Alberta after the devastating Slave Lake wildfires. More than 400 buildings were destroyed and almost 100 more damaged. About two months after the event, Xactware's pricing research identifies the surge in reconstruction costs. While impact is rather modest due to the highly localized nature of the event, there is a clear increase in building cost data in northern Alberta, and even the entire province of Alberta, compared with the national average.

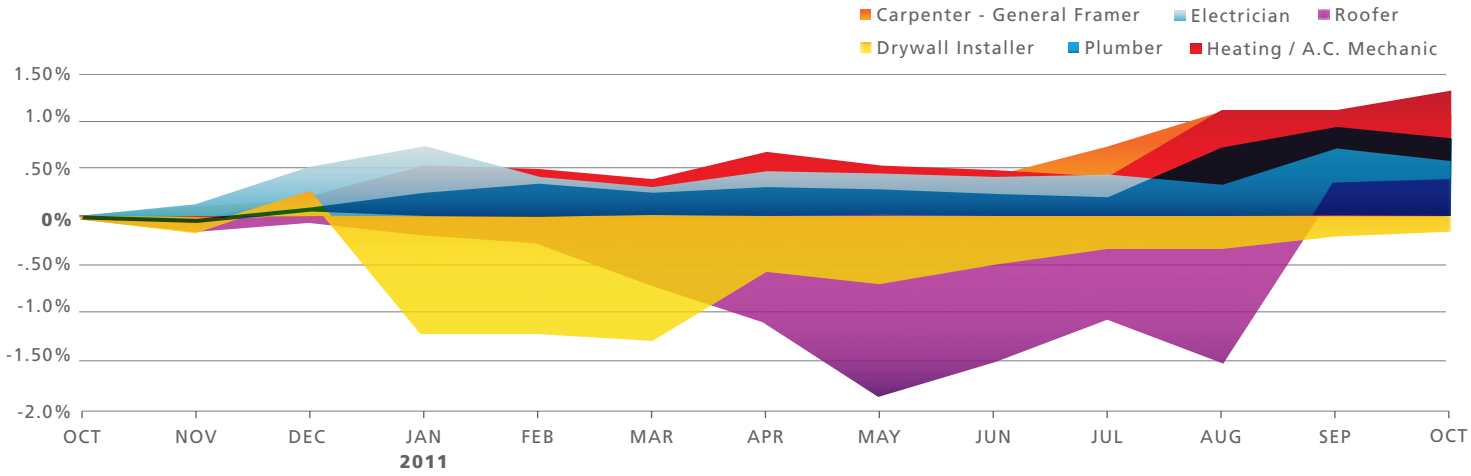


Labour Cost Analysis

Labour rates at the national level increased 0.36 per cent between July 2011 and October 2011. The year-over-year change between October 2010 and October 2011 is an increase of 0.91 per cent.

Following the overall trend of labour rates at the national level, most individual labour trades reported modest increases of less than 1 per cent. Drywall installer is the only trade with a year-over-year decrease, but the decrease was insignificant at less than a quarter of a per cent.





Cost changes for common building materials between October 2010 and October 2011 at the national level.
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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/.

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