



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.

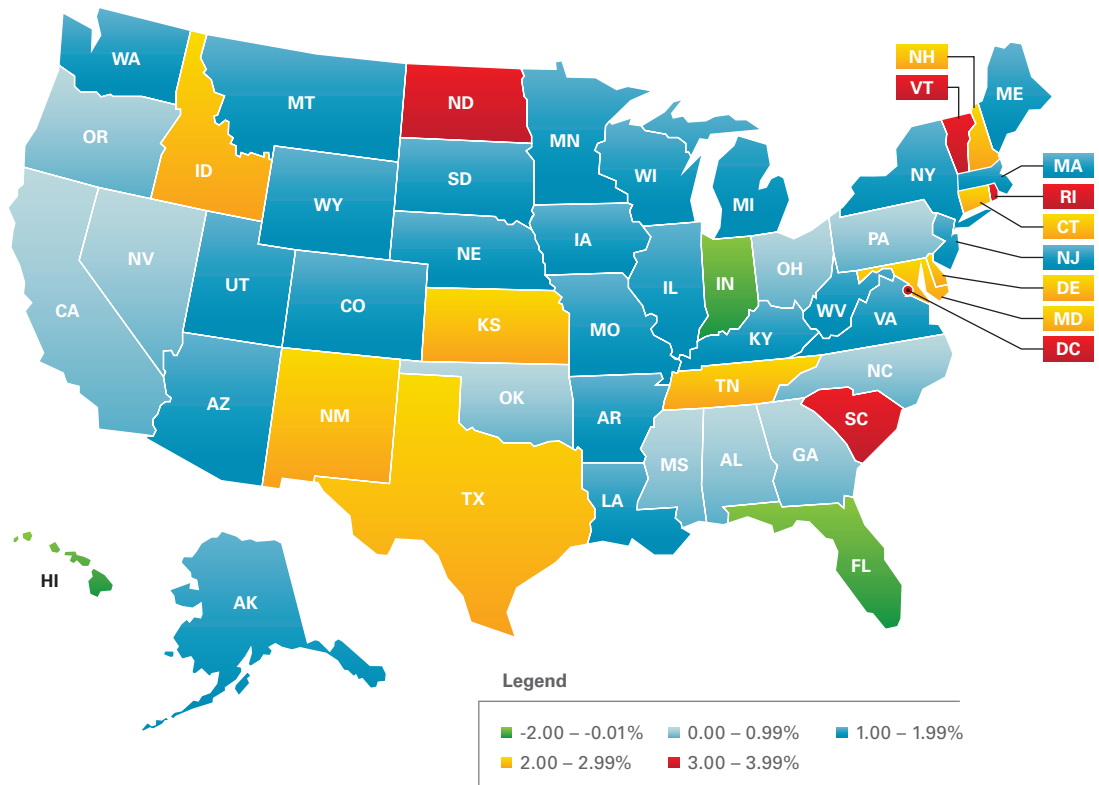
The process includes real-time feedback on reconstruction costs from tens of thousands of contractors and claims adjusters in the field, extensive material and labor cost surveys, and analysis of more than 5 million actual damage-repair estimates for claims each year. Updated reconstruction cost data is incorporated into 360Value quarterly.

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 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.

### National Overview

From July 2011 to July 2012, overall reconstruction costs increased 1.36 percent in the United States. During second-quarter 2012, reconstruction costs increased 0.73 percent from first-quarter 2012.

At the state level, almost half of the states experienced cost increases between 1.00 and 2.00 percent. Five states saw increases greater than 3.00 percent, with the highest increase — 3.81 percent — seen in the District of Columbia. North Dakota continues to be one of the fastest-growing states in terms of population and economic growth due to its entrance into the oil industry, which could explain the jump in costs for reconstruction in that state. Only three states experienced decreases. In Hawaii and Indiana, reconstruction costs dropped less than 0.25 percent, while costs in Florida dropped a notable 1.98 percent.

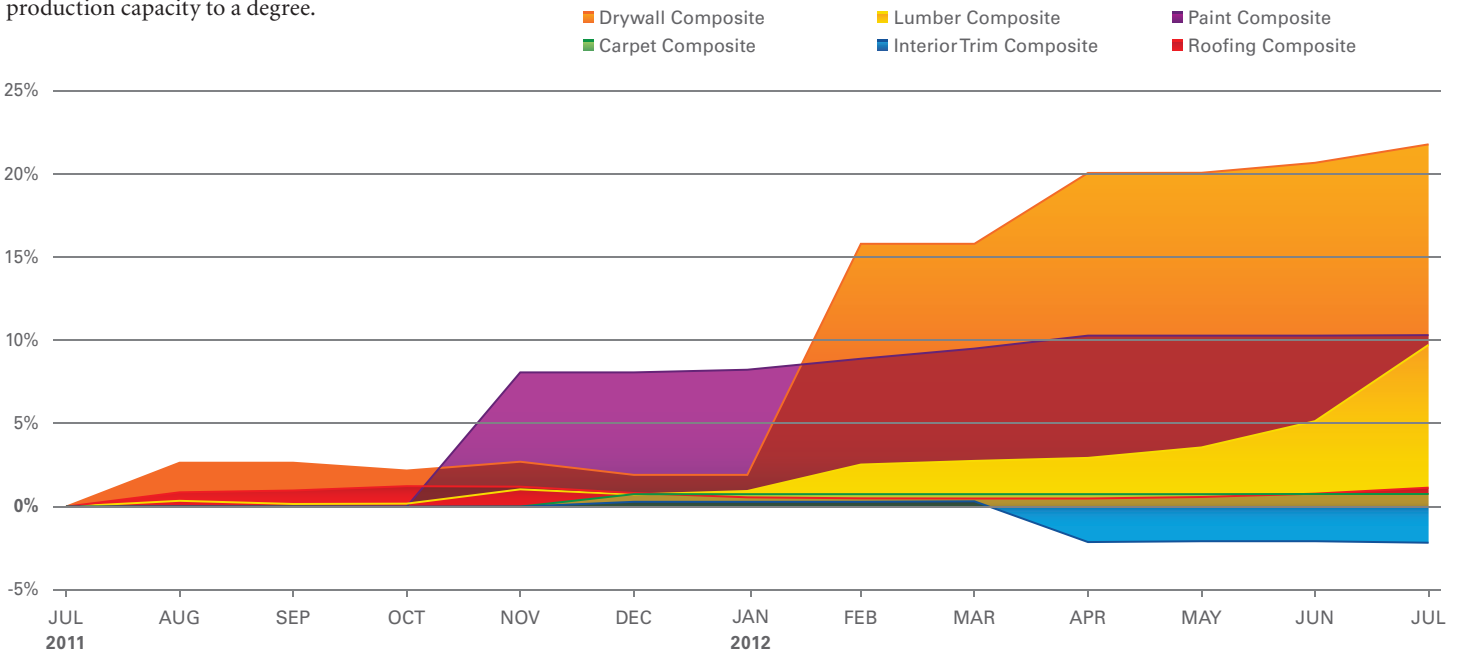
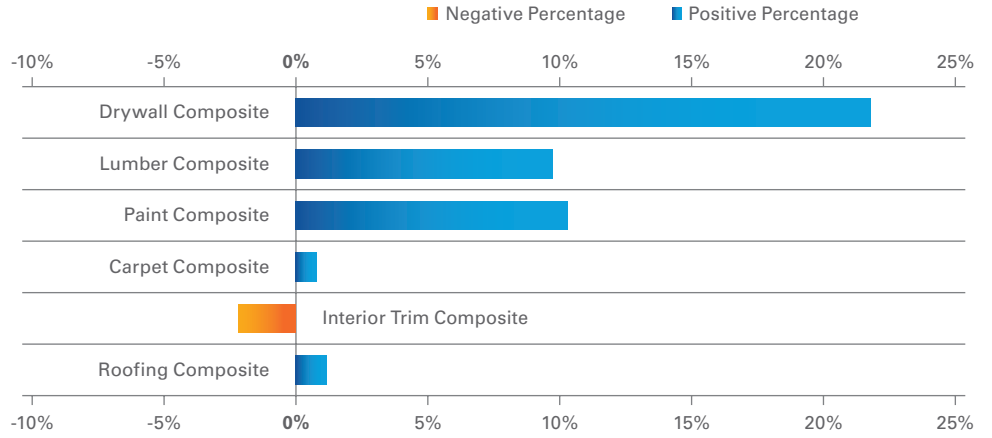


Changes in reconstruction costs by state from July 2011 to July 2012.

Material Cost Analysis

At the national level during the past 12 months, overall costs for material composites tracked by Xactware increased 1.57 percent. During the past three months, material costs increased 1.27 percent.

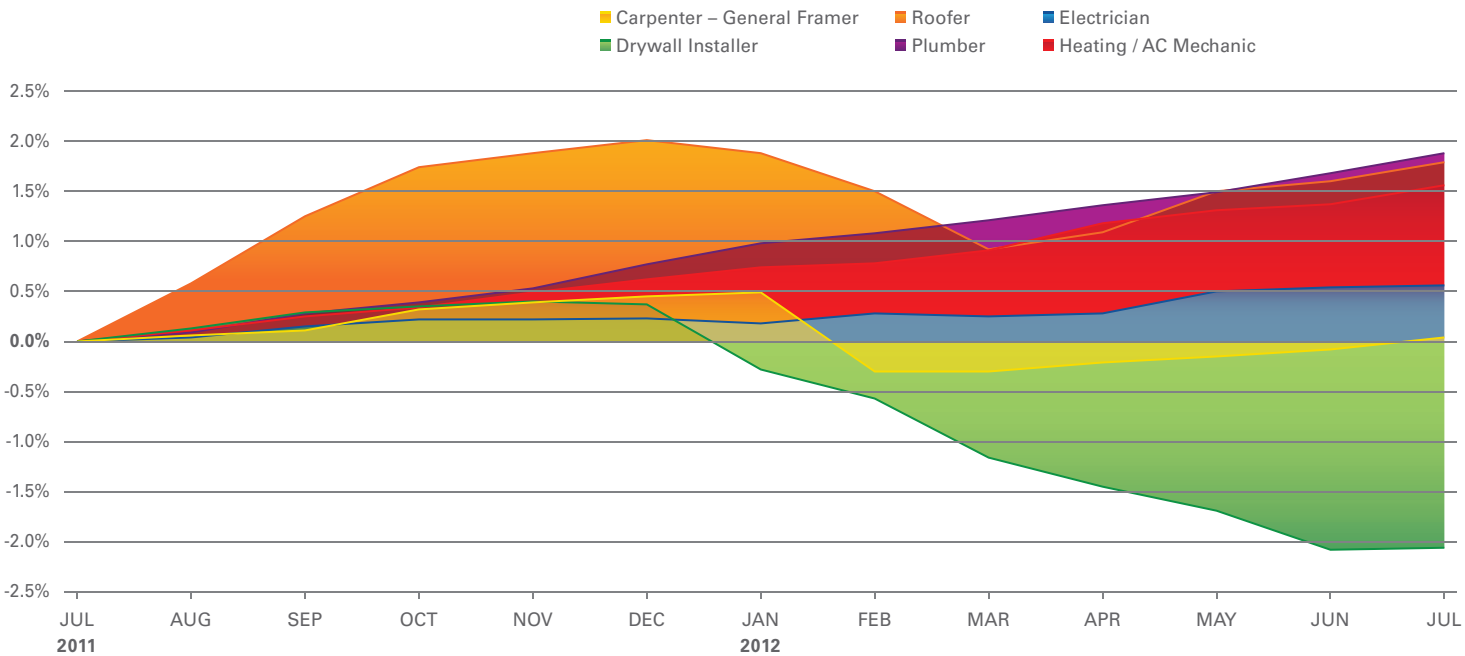
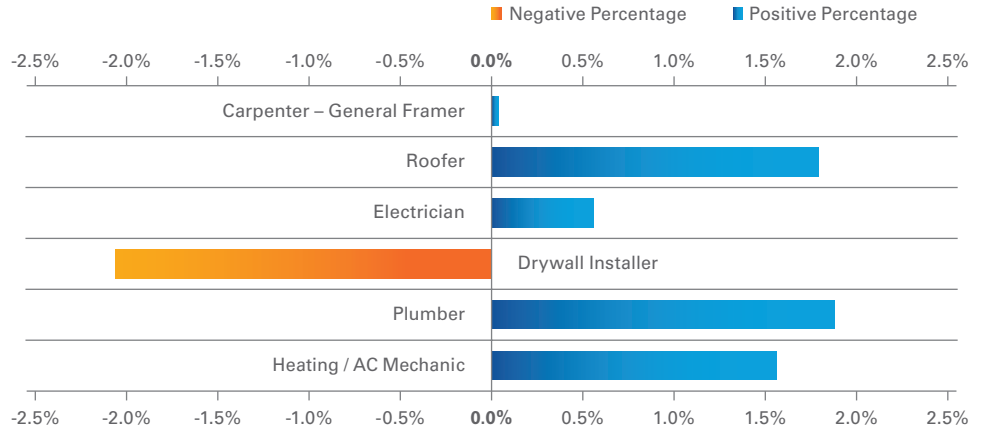
The cost of drywall continues to increase, climbing to 21.78 percent in July 2012. In late 2011, all three major drywall manufacturers announced a 35 percent price increase to drywall prices, effective January 2, 2012, citing lack of demand as the driver behind the increase. Retail prices of drywall have responded to the wholesale increases. Lumber prices have also been increasing, rising to 9.73 percent in July 2012, reflecting increasing construction activity and a number of mill fires, which have slowed production capacity to a degree.



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

Labor Cost Analysis

Overall retail labor rates increased 0.65 percent between July 2011 and July 2012, with all the common labor trades tracked in this report showing increases — except drywall installers, which decreased 2.06 percent. During this past quarter, average retail labor rates showed an increase of 0.37 percent. Rates for roofers, plumbers, and heating/AC mechanics continued to rise from the previous quarter at an average of 1.74 percent.



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

When assessing fire station response, the nearest fire station may not be the responding station

Quick response to a property fire is a major factor in limiting damage and insured loss. One may assume the distance between a property and nearest fire station provides a good assessment of fire station response time.

That's not always the case. In fact, Verisk research indicates that, for approximately 20 percent of U.S. properties, the nearest fire station isn't the primary responding fire station.

When identifying the nearest responding fire station to a property, there are several factors to consider:

- Jurisdiction – There are countless examples of properties located closer to a fire station in a neighboring jurisdiction, rather than the station in its responding jurisdiction. Even if there is a mutual-aid agreement in place with the neighboring jurisdiction, the closer fire station will not be dispatched on the initial alarm, which is a key factor in quick response time and limiting property damage.
- Seasonal – There are many seasonal fire departments in the United States that may be close to a property you insure but cannot be relied upon to fight a fire year-round.
- Subscription – Some communities require homeowners to pay for fire protection. If a homeowner does not pay, fire stations may only respond to protect life; they have no obligation to protect property.
- Standards – Some fire stations lack sufficient personnel, apparatus, equipment, or training to initiate an attack on a property fire. Fire stations that don't meet minimum standards cannot be relied upon for adequate fire protection.



Because fire is one of the most common — and costliest — sources of insured loss, agents and underwriters need to factor in the location of the nearest responding fire stations into underwriting and rating decisions. For more information about how Verisk Insurance Solutions – Underwriting assesses fire station response, visit [www.iso.com/ppc](http://www.iso.com/ppc) and be sure to view the interactive brochure to the lower right.

**Can insurers manage their wildfire risk effectively?**

With devastating wildfires still raging throughout the West, insurers face mounting losses as residential and commercial properties are consumed by the flames. Is it possible for insurers to manage wildfire risk effectively? If so, how? To find out, read [How to Manage Wildfire Risk Effectively](#) on Verisk.com.

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.

Originally developed by Xactware Solutions and AIR Worldwide, 360Value is offered by Verisk Insurance Solutions, the premier provider of comprehensive underwriting solutions serving both automobile and property lines. Verisk Insurance Solutions is the business group of Verisk Analytics (Nasdaq: VRSK) serving the insurance industry with underwriting, claims, catastrophe, and product management offerings. Products and services from ISO, Xactware, and AIR Worldwide are all part of the Verisk Insurance Solutions group.

For more information or to subscribe to Xactware's Industry Trend Reports, visit: <http://www.xactware.com/en-us/solutions/claims-management/industry-trend-reports/>

