RCT BULLETIN

RCT PRODUCT UPDATE BULLETIN

3rd Quarter 2012

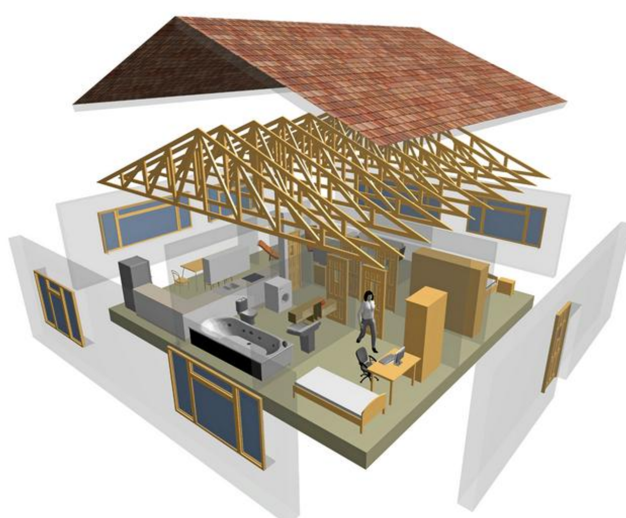
MSB is pleased to provide you with an overview of the updates and enhancements in the 3rd Quarter 2012 release of RCT. This overview will provide you with an understanding of this quarter's changes in residential building costs as well as any enhancements to the Residential Component Technology® software.

To ensure that our clients receive the most current building material and labor costs, MSB continually researches labor, material, and equipment costs (hard costs) plus mark-ups, taxes, and fringes (soft costs) for reconstruction work performed for the insurance industry in the United States and Canada. Research professionals monitor data from nearly 3,000 unique economies in the United States and over 100 in Canada.

The process includes monitoring demographics and econometric statistics, government indicators, localization requirements, markets trends as well as:

- Wage rates for more than 85 union and non-union trades
- Over 100,000 line items of construction data
- Productivity rates and crew sizes
- Local cost concerns such as building code requirements and other localized variables

In addition, we validate cost data by analyzing field inspections records, contractor estimates, phone surveys, and partial and full loss claim information.



NOTE: The cost information in this bulletin is only intended to give you a *general sense* of reconstruction cost trends in North America. We do not advocate using these factors for adjusting renewal values for specific locations or across your book of business. The building material and labor cost trends presented in this bulletin are broad averages derived from our research of construction trades and building materials used in a typical, 2,400 square foot, single family, 2-story home and does not translate into the property specific localized, detailed results calculated by RCT.

For more information or explanation, please contact your sales consultant or account manager.

Marshall & Swift/Boeckh

U.S.

QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

1.2%

PLYWOOD

6.1%

LUMBER

4.0%

COPPER PIPE

0.1%

READY MIX

1.7%

FELT

0.2%

SHINGLES

0.1%

INSULATION

0.1%

DRYWALL

6.5%

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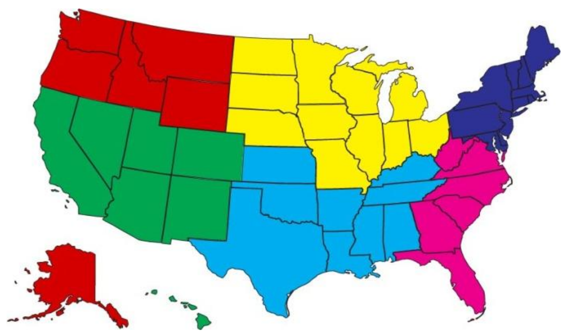

U.S. Regional Quarterly Cost Changes
3rd Quarter 2012 compared to
2nd Quarter 2012

Northwest	0.97%
Southwest	0.14%
Northeast	0.68%
Southeast	0.81%
North Central	0.66%
South Central	0.84%

National Average: 0.67%

U.S. Regional RCT Cost Changes

The second quarter of 2012 saw pricing increases in drywall as manufacturers' increases from early 2012 continue to work into the market. Drywall prices increased 6.5% over the previous quarter and are 13.9% higher than this time one year ago.

Framing lumber and plywood were also on the rise during the second quarter. Plywood prices were up 6.1% during the second quarter, while lumber prices increased 4.0% during the same time frame. This upward trend is expected to continue throughout the next quarter.

The average change for U.S. building materials was 1.3% for the quarter. For labor, the average wage rate increased 0.4%, based on construction trade contracts that expired and were renewed during the quarter. A snapshot of some of the most common elements MSB monitors is listed below.

US	2Q12	1Q12	4Q11	3Q11	2Q11	1Q11	4Q10	3Q10
Copper Wire	-1.2	-1.2	-1.1	1.7	5.9	6.2	4.5	3.8
1/2" Plywood	6.1	3.7	1.7	-2.1	-3.0	-2.9	-3.0	4.9
2x4 Lumber	4.0	-0.9	0.0	1.1	1.7	1.0	-3.6	0.8
1/2" Copper Pipe	0.1	0.4	0.3	3.0	6.8	4.1	3.8	3.3
Ready Mix	-1.7	1.3	1.6	-0.1	-0.4	1.1	0.8	-1.0
Asphalt Felt 15#	0.2	-1.4	0.1	2.0	0.3	-0.6	-1.6	-1.6
Asphalt Shingles 25yr, 3-tab	0.1	0.8	3.2	7.9	1.4	0.1	-1.1	0.6
R-13 Fiber Batt Insulation	-0.1	0.6	1.3	1.9	3.0	4.5	2.4	3.8
1/2" Drywall	6.5	5.9	0.5	0.5	-0.2	0.5	1.3	2.6

*Aggregate Material Index of the nine most commonly used building materials – Residential
** This table represents the percent change from one quarter to the next period.

TECHNICAL SUPPORT: 1-888-370-8324 7 a.m. to 7 p.m. CT ◆ MSBHelpdesk@msbinfo.com

CANADA

QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

0.2%

PLYWOOD

3.2%

LUMBER

3.4%

COPPER PIPE

0.4%

READY MIX

1.5%

FELT

1.1%

SHINGLES

0.6%

INSULATION

0.4%

DRYWALL

1.6%

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Canada Regional Quarterly Cost Changes
3rd Quarter 2012 compared to 2nd Quarter 2012

North	1.20%
West	0.99%
Central	0.98%
Atlantic	0.97%
National Average:	0.99%

Canada Regional RCT Cost Changes

Copper prices did not dip too low before finding their bottom as pipe has moved slightly upward with a 0.4% gain for the quarter. Copper wire remained relatively stable with only a -0.2% decrease over the same time frame.

Lumber and plywood markets continued with increases of 3.4% and 3.2% this quarter. With the decreased demand due to the end of the housing boom, prices fell to levels where North American timber became more attractive to other world markets. As a result, exports have continued to increase year over year. With these increasing exports, we are now seeing larger price increases with only slight upticks in domestic demand.

The average change for Canadian building materials was 1.0% for the quarter. For labor, the average wage rate increased 1.4% for the quarter based on the construction trade contracts that expired and were renewed during the quarter. A snapshot of the most common elements MSB monitors is listed below.

CANADA	2Q12	1Q12	4Q11	3Q11	2Q11	1Q11	4Q10	3Q10
Copper Wire	-0.2	-0.5	-1.5	0.7	5.3	4.3	2.4	0.2
1/2" Plywood	3.2	1.5	1.5	-2.6	-3.7	-3.0	-3.0	0.7
2x4 Lumber	3.4	0.6	1.3	-1.1	-1.4	-1.5	-2.9	2.0
1/2" Copper Pipe	0.4	-0.8	-1.0	-0.4	2.4	2.8	1.3	2.5
Ready Mix	-1.5	2.7	3.3	-1.3	-1.6	2.5	2.8	-0.7
Asphalt Felt 15#	-1.1	-0.8	0.0	1.0	0.0	-0.3	-1.0	-2.2
Asphalt Shingles 25yr, 3-tab	-0.6	-1.2	0.3	2.2	0.5	0.7	-0.8	-0.9
R-13 Fiber Batt Insulation	0.4	0.1	0.3	0.7	1.1	-0.8	-2.0	0.8
1/2" Drywall	-1.6	-0.7	-0.9	-0.8	-0.5	0.1	-1.5	0.1

*Aggregate Material Index of the nine most commonly used building materials – Residential
**This table represents the percent change from one quarter to the next period.

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Marshall & Swift/Boeckh

U.S. / CANADA

ANNUAL MATERIAL COST CHANGES

Material	U.S.	Canada
COPPER WIRE	↓ 1.8%	↓ 1.6%
PLYWOOD	↑ 9.7%	↑ 3.5%
LUMBER	↑ 4.2%	↑ 4.3%
COPPER PIPE	↑ 3.8%	↓ 1.8%
READY MIX	↑ 1.0%	↑ 3.1%
FELT	↑ 0.8%	↓ 0.9%
SHINGLES	↑ 12.3%	↑ 0.8%
INSULATION	↑ 3.8%	↑ 1.6%
DRYWALL	↑ 13.9%	↓ 3.9%

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RCT Software Updates for This Quarter

NOTE: **MSB recommends a full program install whenever possible to ensure that you have the latest data and program enhancements.**

Cost Data Changes

The third quarter 2012 cost data update reflects reconstruction cost changes in both labor and material. Standardized costs in this release reflect localized, updated costs, which represent the impact of emerging markets on construction cost trends, as required by economic trends.

Henderson, NV

Changes in market conditions have been identified in zip code 89011 resulting in RCT cost adjustments with an average reduction of -4.00%. This change will more closely align 89011 with its neighboring zip codes 89014 and 89015. Research validates that these three zip codes have closely aligned costs and move together as a “micro economic” cell.

Main Street, Mobile Manufactured Housing and High Value

California

A downward cost trend continues to occur in central to eastern and far northern regions of California due to continued softening of construction costs in these areas. There are no changes in the highly populated southern coastal areas of California. 1135 California zip codes will see a slight reduction to reconstruction costs between -1.00% and -2.00%.

Main Street, Mobile Manufactured Housing and High Value

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