Overview of Property Reconstruction Cost Changes

Understanding the Difference between Market Value and Replacement Value

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, Xactware continually researches and validates reconstruction cost data at a highly localized level.

This 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 three million 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 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

Overall reconstruction costs increased 0.49 percent this quarter, virtually the same as the 0.51 percent increase observed last quarter. Over the past 12 months, overall reconstruction costs increased 0.41 percent bringing them to the highest levels observed since Xactware began tracking the data in 2002.

At the state level, overall reconstruction cost increases were moderate between July 2010 and July 2011. North Dakota was the only state with an increase of more than two percent, while Mississippi and Nevada were the only two states with a decrease of more than one percent. 15 states reported increases of 0.50 percent or less and 22 states reported decreases of -0.99 percent or less. The map to the right provides all of the details.

Understanding the Difference between Market Value and Replacement Value

Last quarter we reported on the large disparities between market value and replacement value in many U.S. metropolitan areas. Xactware’s analysis of the data from the first quarter of 2011, latest data available, shows the gap increasing in each market analyzed. To the right is the data for the past four quarters.

For more information on the differences between market values and replacement cost estimates, please visit Xactware’s website.
Material Cost Analysis

Despite recent price drops in the price of drywall, lumber, and interior trim building materials, overall material costs at the national level increased slightly at 0.39 percent over the past quarter. Overall materials costs are still 0.53 percent lower than July 2010 when they were close to the all time high.

The roofing materials composite shows one of the more interesting trends over the past year, as depicted in the charts to the right. Roofing materials, which are driven in a large part by petroleum-based asphalt shingles, had a sharp increase last month as a result of damage caused by the spring severe thunderstorms and the recent run-up in crude oil prices. For more information on how fuel costs impact reconstruction costs, please see the sidebar below.

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 between 2006 and 2010.

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.

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.
Labor Cost Analysis

Continuing a trend over the past several quarters, overall labor rates at the national level moved slightly higher over the past three months at 0.43 percent. Most trades showed very little movement over the past 12 months, resulting in an increase of 0.49 percent for overall labor costs at the national level.

The impact of the spring severe thunderstorm activity has made a significant impact on roofing labor at the national level with costs increasing more than 4 percent in June alone. At the local level the impact is much more significant.

In Tuscaloosa, Alabama, where an EF4 tornado touched down on April 27, roofing labor costs increased more than 35% in June. Roofing labor costs in Joplin, Missouri increased more than 10 percent in June after the May 23 EF5 tornado. We will keep an eye on these areas and others to determine the overall impact of these storms on reconstruction costs.

Changes in labor costs for some common trades between April 2010 and April 2011 at the national level. Labor 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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