

RCT PRODUCT UPDATE BULLETIN

1st Quarter 2014

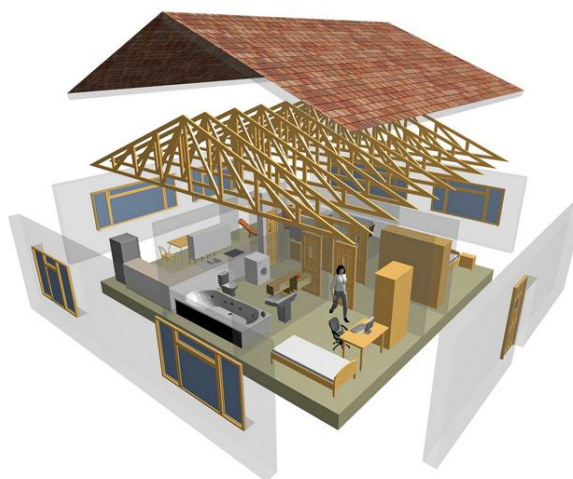
MSB is pleased to provide you with an overview of the updates and enhancements in the **1st Quarter 2014 release of RCT**. This overview will provide you with an understanding of this quarter's changes in residential building costs as well as any enhancements to the Residential Component Technology® software.

To ensure that our clients receive the most current building material and labor costs, MSB's Data team continuously researches labor, material, and equipment costs (hard costs) including mark-ups. Our research is extended to cover 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, and localization requirements, including market trends. Other factors in this process include:

- 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 inspection 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 when 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.

U.S. QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

0.6%

PLYWOOD

5.0%

LUMBER

2.1%

COPPER PIPE

0.4%

READY MIX

1.4%

FELT

0.0%

SHINGLES

0.2%

INSULATION

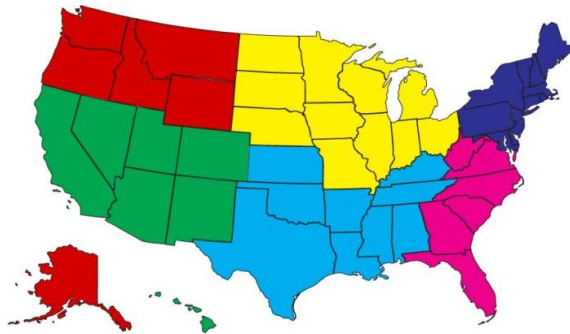
5.6%

DRYWALL

1.5%

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U.S. Regional Quarterly Cost Changes 1st Quarter 2014 compared to 4th Quarter 2013

Northwest	-0.09%
Southwest	-0.33%
Northeast	-0.40%
Southeast	-0.72%
North Central	-0.50%
South Central	-0.38%

National Average: -0.40%

U.S. Regional RCT Cost Changes

Construction activity has slowed as cold weather begins to settle across the nation. Consequently, lumber and plywood prices have significantly decreased at -2.1% and -5.0% for the quarter. While drywall revealed a minimal increase of 1.5% for the quarter, insulation products also increased 5.6%. Gains have been prevalent throughout both industries, despite continuing issues in production.

Copper pipe and wire continue a respective decline at -0.4% and -0.6% for the quarter. Roofing shingles have declined at -0.2%, which is lower than pricing this time a year ago. Ready mix concrete has slightly increased by 1.4% over the quarter, due to annual cold-weather fees.

The average change for U.S. building materials was -0.7% for the quarter. For labor, the average wage rate increased 1.1%, based on construction trade contracts that were renewed during the quarter. A snapshot of some of the most common elements MSB monitors is listed below.

US	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12
Copper Wire	-0.6	-1.4	-1.7	0.5	0.9	-4.4	-1.2	-1.2
1/2" Plywood	-5.0	1.3	6.9	3.0	5.4	6.7	6.1	3.7
2x4 Lumber	-2.1	1.1	6.3	3.0	2.6	6.5	4.0	-0.9
1/2" Copper Pipe	-0.4	-1.0	-0.4	0.8	-1.0	-2.7	0.1	0.4
Ready Mix	1.4	0.1	-0.6	2.0	1.1	0.5	-1.7	1.3
Asphalt Felt 15#	0.0	-0.3	-0.1	-0.3	-0.5	1.3	0.2	-1.4
Asphalt Shingles 25yr, 3-tab	-0.2	1.1	-0.8	0.1	0.1	1.3	0.1	0.8
R-13 Fiber Batt Insulation	5.6	4.8	1.7	0.8	1.9	0.8	-0.1	0.6
1/2" Drywall	1.5	3.9	4.7	4.5	1.0	3.2	6.5	5.9

*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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CANADA

QUARTERLY MATERIAL COST CHANGES

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COPPER WIRE

0.3%



PLYWOOD

3.4%



LUMBER

0.1%



COPPER PIPE

0.5%



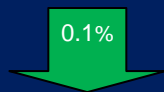
READY MIX

1.8%



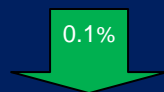
FELT

0.1%



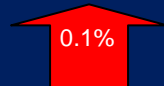
SHINGLES

0.1%



INSULATION

0.1%



DRYWALL

0.5%



Canada Regional Quarterly Cost Changes 1st Quarter 2014 compared to 4th Quarter 2013

North	-0.28%
West	-0.39%
Central	-0.88%
Atlantic	-0.95%

National Average: -0.74%

Canada Regional RCT Cost Changes

Ready mix concrete pushed upward at 1.8%, which marks the first pricing increase since the second quarter of last year. Insulation products were up 0.1%, a small increase that signals more relief in pricing for the start of 2014. Reduced housing starts and freezing temperatures continue to affect plywood pricing, which revealed a small pattern of decline at -3.4% for the quarter.

Lumber highlighted another minimal increase at 0.1%, as we progress into the start of 2014. The increased rate is far less than those of the previous quarters, reflecting a downward trend demand. Drywall continues a pattern of decline at -0.5%, as we progress through the remainder of the winter season. Roofing shingles revealed a small decrease at -0.1%, a slump in pricing that may continue throughout the next quarter.

The average change for Canadian building materials was -0.1% for the quarter. For labor, the average wage rate increased to 1.0% for the quarter, based on the construction trade contracts that were renewed during the quarter. A snapshot of the most common elements MSB monitors is listed below.

CANADA	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12
Copper Wire	-0.3	-1.4	-2.1	-1.6	-0.9	-0.8	-0.2	-0.5
1/2" Plywood	-3.4	-1.7	3.6	4.8	7.2	7.7	3.2	1.5
2x4 Lumber	0.1	2.2	4.9	3.8	4.7	7.7	3.4	0.6
1/2" Copper Pipe	-0.5	-1.1	0.3	-2.0	-0.6	-0.3	0.4	-0.8
Ready Mix	1.8	-1.1	-1.3	3.0	3.4	-2.1	-1.5	2.7
Asphalt Felt 15#	-0.1	-0.3	-1.4	-0.6	-0.7	0.6	-1.1	-0.8
Asphalt Shingles 25yr, 3-tab	-0.1	-1.3	-1.1	0.6	0.9	0.5	-0.6	-1.2
R-13 Fiber Batt Insulation	0.1	1.9	-0.4	1.3	0.5	0.5	0.4	0.1
1/2" Drywall	-0.5	-0.8	0.9	0.0	-1.3	-1.8	-1.6	-0.7

*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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U.S. CANADA

ANNUAL MATERIAL COST CHANGES ANNUAL MATERIAL COST CHANGES

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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 first quarter 2014 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.

Mobile-Manufactured Housing - 2014 Historical Depreciation Tables

Each year as part of the first quarter update, the Mobile Manufactured Home Historical Depreciation table and definition are updated to reflect changes to the year built range 1950 to 2015.

State Sales Tax Changes

Per the Ohio Department of Taxation— the Ohio sales and use tax rate will increase from 7.0% to 7.5% in Franklin County, and decrease from 7.25% to 7.0% in Putnam County as of January 1, 2014.

Local County Sales tax rates are added to the State sales tax rate, resulting in the total state and county tax rate. MSB does not include individual city or municipal tax rates, since they could be smaller than the zip code level.

Williston Area North

As you know, MSB has been watching the North Dakota area for quite some time. The MSB quarterly updates capture and report pricing changes in material, labor and equipment, while our "Deep Dive" research is focused on identifying and validating variable impacts affecting contractor pricing models and unique economic influences. The construction boom in Williston and its' surrounding areas appears to have spiked in 2011 and 2012, showing signs of stabilization this past summer.

Based on results of our "Deep Dive" research, we have made adjustments to wages. We have confirmed that a new baseline has been established in Williston and its' surrounding areas, and is reflected in this quarterly update. MSB will continue to make recalibration changes in pricing during planned quarterly updates as warranted.

For more detailed information on this research, please access the Williston North Dakota Research Results online via the **MSB Knowledge Center** at www.msbknowledgecenter.com.

Non-Cost Data Changes: Material Updates

The following new materials were added to RCT Main Street, High Value and RCT 4.x:

- Storm Shelter, Steel, Above Ground, SF (Square Feet) (Exterior, Attached Structures)
- Storm Shelter, Steel, Below Ground, SF (Square Feet) (Exterior, Attached Structures)
- Storm Shelter, Concrete, Above Ground, SF (Square Feet) (Exterior, Attached Structures)
- Storm Shelter, Concrete, Below Ground, SF (Square Feet) (Exterior, Attached Structures)
- Storm Shelter, Fiberglass, Below Ground, SF (Square Feet) (Exterior, Attached Structures)
- Storm Shelter, Steel, Above Ground, SF (Square Feet) (Exterior, Detached Structures)
- Storm Shelter, Steel, Below Ground, SF (Square Feet) (Exterior, Detached Structures)
- Storm Shelter, Concrete, Above Ground, SF (Square Feet) (Exterior, Detached Structures)
- Storm Shelter, Concrete, Below Ground, SF (Square Feet) (Exterior, Detached Structures)
- Storm Shelter, Fiberglass, Below Ground, SF (Square Feet) (Exterior, Detached Structures)

The following new materials were added to RCT High Value and RCT 4.x:

- Lift, Vehicle (Count) (Garage & Carports, Garage Specialties)

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COPPER WIRE



PLYWOOD



LUMBER



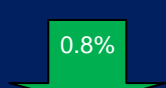
COPPER PIPE



READY MIX



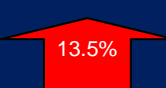
FELT



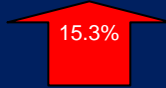
SHINGLES



INSULATION



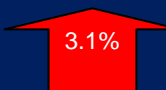
DRYWALL



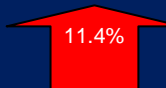
COPPER WIRE



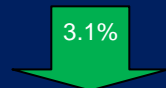
PLYWOOD



LUMBER



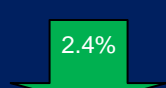
COPPER PIPE



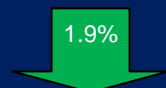
READY MIX



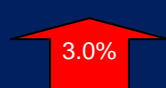
FELT



SHINGLES



INSULATION



DRYWALL

