RCT BULLETIN

RCT PRODUCT UPDATE BULLETIN

4th Quarter 2013

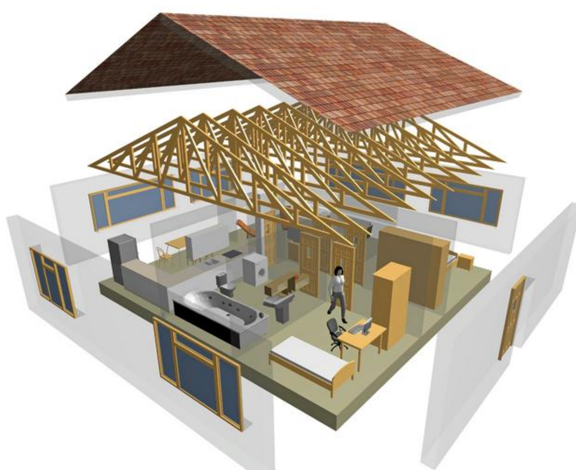
MSB is pleased to provide you with an overview of the updates and enhancements in the **4th Quarter 2013 release of RCT**. This overview will provide you with an understanding of this quarter's changes in residential building costs as well as any enhancements to the Residential Component Technology® 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.

Marshall & Swift/Boeckh

U.S.

QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

1.4%

PLYWOOD

1.3%

LUMBER

1.1%

COPPER PIPE

1.0%

READY MIX

0.1%

FELT

0.3%

SHINGLES

1.1%

INSULATION

4.8%

DRYWALL

3.9%

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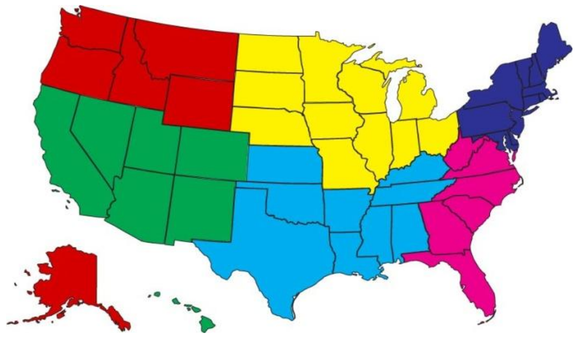

U.S. Regional Quarterly Cost Changes
4th Quarter 2013 compared to 3rd Quarter 2013

Northwest	0.01%
Southwest	0.14%
Northeast	0.34%
Southeast	0.31%
North Central	0.43%
South Central	0.10%

National Average: 0.24%

U.S. Regional RCT Cost Changes

Plywood and lumber continue with minimal increases at 1.3% and 1.1% from the previous quarter. The reduced rates reflect the decreased new housing starts as we approach the winter season. Drywall prices were up 3.9% for the quarter. Supply issues within the industry have influenced pricing, and are predicted to continue throughout the remainder of 2013.

Insulation prices show significant increase spiking upward at 4.8% for the quarter. Copper pipe and wire have declined at -1.0% and -1.4% respectively, due to a downward slump in demand for metal products. Ready-mix jumped slightly to 0.1%, after declining during the previous quarter.

The average change for U.S. building materials was 0.2% for the quarter. For labor, the average wage rate increased 0.4%, 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	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11
Copper Wire	-1.4	-1.7	0.5	0.9	-4.4	-1.2	-1.2	-1.1
1/2" Plywood	1.3	6.9	3.0	5.4	6.7	6.1	3.7	1.7
2x4 Lumber	1.1	6.3	3.0	2.6	6.5	4.0	-0.9	0.0
1/2" Copper Pipe	-1.0	-0.4	0.8	-1.0	-2.7	0.1	0.4	0.3
Ready Mix	0.1	-0.6	2.0	1.1	0.5	-1.7	1.3	1.6
Asphalt Felt 15#	-0.3	-0.1	-0.3	-0.5	1.3	0.2	-1.4	0.1
Asphalt Shingles 25yr, 3-tab	1.1	-0.8	0.1	0.1	1.3	0.1	0.8	3.2
R-13 Fiber Batt Insulation	4.8	1.7	0.8	1.9	0.8	-0.1	0.6	1.3
1/2" Drywall	3.9	4.7	4.5	1.0	3.2	6.5	5.9	0.5

*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

CANADA

QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

1.4%

PLYWOOD

1.7%

LUMBER

2.2%

COPPER PIPE

1.1%

READY MIX

1.1%

FELT

0.3%

SHINGLES

1.3%

INSULATION

1.9%

DRYWALL

0.8%

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Canada Regional Quarterly Cost Changes
4th Quarter 2013 compared to 3rd Quarter 2013

North	0.77%
West	0.60%
Central	0.11%
Atlantic	0.26 %
National Average:	0.29%

Canada Regional RCT Cost Changes

Roofing shingles declined -1.3% due to reduction in demand and continued increases in production. Insulation products were up 1.9%, suggesting some relief in pricing after a small decline in the previous quarter. Plywood revealed a -1.7% decrease for the quarter. Increased supply and lower seasonal demand led to the first decline in prices for the year.

Lumber highlighted a smaller increase at 2.2%. The increased rate is less than those of the previous quarters, which is also influenced by a slump in demand. Drywall moves back into a pattern of decline with a -0.8% decrease for the quarter. Ready mix concrete continued to decline at -1.1%, a steady pattern that may continue through the remainder of 2013.

The average change for Canadian building materials was 0.2% for the quarter. For labor, the average wage rate increased to 0.6% 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	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11
Copper Wire	-1.4	-2.1	-1.6	-0.9	-0.8	-0.2	-0.5	-1.5
1/2" Plywood	-1.7	3.6	4.8	7.2	7.7	3.2	1.5	1.5
2x4 Lumber	2.2	4.9	3.8	4.7	7.7	3.4	0.6	1.3
1/2" Copper Pipe	-1.1	0.3	-2.0	-0.6	-0.3	0.4	-0.8	-1.0
Ready Mix	-1.1	-1.3	3.0	3.4	-2.1	-1.5	2.7	3.3
Asphalt Felt 15#	-0.3	-1.4	-0.6	-0.7	0.6	-1.1	-0.8	0.0
Asphalt Shingles 25yr, 3-tab	-1.3	-1.1	0.6	0.9	0.5	-0.6	-1.2	0.3
R-13 Fiber Batt Insulation	1.9	-0.4	1.3	0.5	0.5	0.4	0.1	0.3
1/2" Drywall	-0.8	0.9	0.0	-1.3	-1.8	-1.6	-0.7	-0.9

*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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	U.S. ANNUAL MATERIAL COST CHANGES	CANADA ANNUAL MATERIAL COST CHANGES
COPPER WIRE	↓ 1.8%	↓ 5.9%
PLYWOOD	↑ 17.5%	↑ 14.5%
LUMBER	↑ 13.6%	↑ 16.5%
COPPER PIPE	↓ 1.6%	↓ 3.3%
READY MIX	↑ 2.7%	↑ 3.9%
FELT	↓ 1.2%	↓ 3.0%
SHINGLES	↑ 0.6%	↓ 0.9%
INSULATION	↑ 9.5%	↑ 3.3%
DRYWALL	↑ 14.7%	↓ 1.1%

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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 fourth quarter 2013 cost data update reflects reconstruction cost changes in both labor and material. Standardized costs in this release reflect localized, updated costs representing the impact of emerging markets and economic trends on construction costs.

Sales Tax

The Ohio sales tax rate changed from 5.5% to 5.75% as of September 1, 2013– Per the Ohio Department of Taxation. All Ohio zip codes are affected (43000 to 45999).

The Manitoba sales tax rate changed from 7% to 8% as of July 1, 2013– Per the Manitoba Finance Department of Taxation. All Manitoba postal codes are affected (R0A0A0 to R9Z9Z9).

Note: Local County Sales tax rates are added to the State sales tax rate to get to 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.

Material

Photovoltaic systems and solar panel assemblies have been modified to reflect current economies of scale, market maturation, manufacturing and technological enhancements. These modifications result in costs changes to the following material selections for RCT Main Street, Mobile Manufactures Homes, High Value and RCT 4.X:

- Solar Panels
- Photovoltaic System, Average
- Photovoltaic System, Large
- Photovoltaic Shingles
- Photovoltaic Tiles

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