

Roofing Prices in Xactimate

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Roofing repair and replacement continues to be one of the largest areas of expenditure in the property insurance market. XactAnalysis, Xactware's claims reporting network, shows that roofing repairs accounted for 23.9 percent of all property claim money spent between 2013 and 2016. While many types of roof coverings exist, the most popular (the most susceptible to storm damage) are composite shingles. According to the Asphalt Roofing Manufacturers Association, composite shingles (also referred to as asphalt shingles) are installed on four out of five homes in the United States.



VOLATILITY IN CRUDE OIL COSTS

Because composition shingles are a petroleum-based product, the cost of producing them can sometimes naturally follow the cost of crude oil. However, this may not always be directly and immediately reflected in market pricing. Supply and demand, historic pricing, and the current inventory of roofing materials at retail locations may have a bigger impact on market price, even when crude oil prices change dramatically.

Manufacturers occasionally send out notices of increases for roofing material. These notices are useful in helping Xactware identify time frames wherein more in-depth surveys may be needed, however, it is important to note that increases do not always happen during the same time frame or in the same amounts as specified in the notice.

BROAD RANGE ROOFING CONTRACTORS IN THE MARKET

The high volume of roof claims and repairs, as well as expansion of insurance repair programs into specialized markets such as roofing, have created a broad expansion of providers who perform this type of work.

In the past, the residential roofing industry was primarily made up of traditional sub-contractors, with their own crews and their own employees, who performed the installation of shingles. Now, market expansion has created a call for general contractors who specialize in a few critical trades, or only in

single areas such as roofing. The latter (sometimes described as a roofing sales organization) are considered general contractors only because they do not perform the work in-house, but rather subcontract it. Not only is this group as cost-effective as a traditional subcontractor, but also offers the quality service, job management, and higher limits of liability that come with a general contractor.

As with any market in which those who perform services differ in the structures of their organizations - overhead costs, desired markups, and margins may vary. For instance, the overhead and markup of a traditional subcontractor is less than that of a larger general contractor, or an organization that pays a commission on each square of shingles sold. While each is providing the same product, there can be a wide range of difference in the costs and services to consumers having their roofs replaced.

For example, surveys conducted in December 2016 with sixteen different companies in the Dallas, Texas area, concerning the cost of installing standard 30 year laminated composition shingles, revealed a quoted price range from \$150-\$256 per square. While this difference of more than 70 percent from the low to the high range seems extreme, it is not uncommon. The average cost range in cities throughout North America is over 50 percent, and Xactware commonly sees ranges of 100 percent or more in the shingle market.

Xactware reports market prices, which by definition are the prevailing or most commonly reported prices from any given market. The prices quoted by most suppliers and service providers tend to cluster around the mid-point range, so Xactware's published cost information often results in a price which is near the median or mode of the range of prices received.

While the same process is used in calculating all of Xactware's reported cost information, it is important for purchasers and providers of roofing services to understand how broad the range of costs are within a given market. For instance, in areas where the reported costs range 75 percent from low to high, and Xactware's published cost is near the middle, the prices available to the market will range by approximately 27 percent above and below the reported price.

In the end, each purchaser or service provider should understand that the broad range of available prices determines whether the market price reported by Xactware is appropriate for their company, and for the specific job being estimated. In cases where it is not, Xactimate provides the functionality needed to either adjust the price or create new line items and costs as needed.

OVERHEAD AND PROFIT

The retail labor rate in Xactware's published cost information is intended to account for general and administrative (G&A) expenses and markup charged by a typical subcontractor, or the non-wage related expenses incurred by a general contractor who has their own employees perform the work. In general terms, this means that the unit cost in Xactware's published pricing should be inclusive of subcontractor overhead and profit (O&P), and that the percentage of O&P added to estimates is intended for use by a general contractor. The retail labor rate (specifically the labor overhead portion) is discussed in more detail in the *Overhead and Profit* whitepaper.

It is important to remember, however, that these are only guidelines and that there are no restrictions on how general O&P should be addressed in Xactimate. Therefore, when Xactware surveys costs, each

respondent is asked to quote and include all costs that are normal and customary for their company and in their market. In this way, Xactware ensures that we capture and report a true market-based price for each area.

SUMMARY

The following points were discussed in this article:

- Roofing repair and replacement continues to be one of the largest areas of expenditure in the property insurance market.
- The most commonly used roof covering materials can be volatile in price, experiencing significant and rapid cost changes based on demand surge and manufacturing costs.
- Since those who provide roof replacement services differ in the structures of their organizations, overhead costs, desired markups and margins may also vary. The result is an often broad range of costs available to the consumer, which can fluctuate throughout a given year.
- Xactware reports market prices, which by definition are the prevailing or most commonly quoted prices from any given market, and often results in a price near the median or mode of the range of prices received.
- Xactware obtains pricing information from both market surveys and from completed claims written using Xactimate. As such, there is no way to be certain that any published price will be appropriate for a specific contractor, repair, or structure.
- Having cost information that is based on recently submitted prices is a valuable tool in creating accurate repair estimates, and providing a basis from which an estimator can decide whether the price should be accepted, or adjusted.