YOUR MARSHALL & SWIFT BUILDING VALUATION
REPLACEMENT COST INCLUDING BUILDING CODE COSTS

Insurable Replacement Cost

“Insurable Replacement Value” represents the replacement or reproduction cost of the insurable improvements. It is not a “Value”, but rather a Cost Estimate that makes no allowance for land value, depreciation, indirect costs, or developer’s profits. As such, it is totally unrelated to Cash Value or Market Value. “Insurable Replacement Value” is normally defined as follows:

1) The value of the property that is recognized as insured under the provisions of the applicable insurance policy.

2) The value used by insurance companies as the basis for insurance. The replacement or reproduction cost of the property with materials of like kind and quality intended for the same use less deterioration and non-insurable items. This Value is not market or cash value but rather it is entirely a cost concept.

M & S Cost Data Information

In order to estimate the Insurable Replacement Cost of your chapter house, we have used the building cost data available through the Marshall & Swift Valuation Service. The Marshall & Swift Building Valuation Service is a widely known and highly respected national firm that provides a continuing update of current costs for all types of real estate construction. Cost factors are updated on a quarterly basis, and regional and local adjustment factors are computed for variations in the market information.

Costs included in their indices are:
1) Normal Site Preparation, 6) Architectural Fees,
2) Labor, 7) Contractor Overhead and Profit, and
3) Materials, 8) Interim Interest and Loan Fees
4) Normal Utility Hook Up,

Items to be added normally include:
1) Permanent Loan Fees, 5) Real Estate Taxes,
2) Rent Loss to Lease Up, 6) Construction Insurance, and
3) Leasing Commissions, 7) Developers Profit
4) Rent Concessions,

Some of these items are not applicable to replacement cost when estimating insurable value. For example, most soft costs such as land acquisition costs, most professional fees, utility connection fees, lease up costs or entrepreneurial profit have not been included. Some applicable soft costs that are necessary costs to rebuild the subject property (i.e. architects fees) have been included in your replacement cost estimate. Depreciation was not deducted, and land value was not included.
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Building Codes and Costs

Building Codes refers to laws or ordinances that are in effect that regulate zoning, land use or the construction, renovation or repair of a building. The operation of these laws frequently creates added losses and costs such as:

1) The value of the undamaged portion of the building that must be demolished,
2) The cost to demolish the damaged building and clear the site, and
3) The increased costs of replacement or repairs to a building that are required to comply with current building codes.

Building Code Compliance Costs are a major cost factor in fraternity chapter house insurance claims and often increase replacement costs by 25% - 35% or more.

The older your chapter house the greater the likelihood that you will incur significant added costs for Building Code Compliance if the property is damaged. Some of the areas where the most significant costs are incurred include:

1) Demolition Costs
2) Sprinkler Systems and New Water Lines,
3) Fire Alarm Systems and Monitoring,
4) ADA Compliance including Ramps & Elevators,
5) Heating Ventilation and Air Conditioning Systems,
6) Electrical Systems including Conduit and GFIC outlets,
7) Asbestos and Lead Paint Abatement, and
8) Increased Taxes, Overhead and Profit costs.

Most building valuations do not include these cost items, but because they are significant and coverage for them is provided by your policy they are included in the Marshall & Swift Insurable Replacement Cost of your chapter house.

Insurance Exclusions

In establishing the Insurable Replacement Cost including Building Codes for your Chapter House an adjustment for exclusions has been included to adjust for items not covered by insurance such as:

1) Land, Water, or Air,
2) Excavations or Grading Costs,
3) Building foundations or supports, flues, pipes, drains, or wiring below ground,
4) Most landscaping, shrubs, trees and plants,
5) Bulkheads, pilings, piers, wharves, or docks, and
6) Other items which would not be destroyed by fire or some other catastrophe.
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Broad Coverage = Full Claims Recovery

While the Insurable Replacement Cost including Building Codes value produced by Marshall and Swift is only an estimate, it is accepted by underwriters as a reasonable basis for premium and foundation for full claims recovery. In return for your insuring at the Marshall & Swift indicated value your underwriters have agreed to eliminate the Co-Insurance, Contribution and other penalty clauses commonly found in insurance policies that can prevent a full claim recovery. Your underwriters have also agreed to eliminate the usual individual limits of coverage for Buildings, Contents, Rental Income and Extra Expense and provide you with broad Blanket Limits of Protection.

The Blanket Limit Coverage structure affords you with the broadest possible insurance protection. It protects you against the increased costs due to a catastrophic event that effects the available supply and cost of construction materials or labor. It transfers the risk of loss to the underwriters and assures that subject to the policy terms and conditions even if your final loss or claim exceeds the values upon which your premium has been based, your underwriters will pay the full amount of your claim up to the Blanket Limit of Coverage provided.

ACTUAL FRATERNITY PAID CLAIM – BLANKET COVERAGE EXAMPLE

<table>
<thead>
<tr>
<th>Insured Values on the Date of Loss</th>
<th>Actual Claim Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>$ 606,000</td>
</tr>
<tr>
<td>Building Codes</td>
<td>$ Included</td>
</tr>
<tr>
<td>Contents</td>
<td>$  40,000</td>
</tr>
<tr>
<td>Rental Income</td>
<td>$  36,000</td>
</tr>
<tr>
<td>Extra Expense</td>
<td>$   25,000</td>
</tr>
<tr>
<td>Total Insured Values:</td>
<td>$  707,000</td>
</tr>
</tbody>
</table>

More details of this example and other helpful information on “Establishing your Insurable Values” can be found on our website www.jrfco.com
Alternate Sources of Building Valuations

While your underwriters accept the Marshall & Swift Building Valuations without question as a reliable and reasonable basis for premium and claims payment, they will consider other information sources. If you disagree with your Building Valuation and wish to engage at your own cost the services of an accredited and qualified real estate appraiser, licensed general contractor, or professional cost estimator to provide a similarly detailed calculation of the Insurable Replacement Cost Including Building Codes for your chapter house underwriters are willing to consider such reports.
WHY USE MARSHALL & SWIFT BUILDING COST DATA?

Essential to the Cost Approach
The primary reason most real estate and insurance professionals use Marshall & Swift building cost data is to complete cost approach valuations. This is based on the reasoning that a buyer or insurer would not pay more than the cost to repair, replace, or reproduce the subject property. The cost approach is used to determine a replacement or reproduction cost and depreciation. That figure is then added to the estimated land value to complete the appraisal. Sometimes underestimated, the role of the cost approach is clearly important in modern real estate and insurance appraisals.

An Essential Valuation Method
The cost approach is essential to various real estate and insurance appraisal assignments, including when appraising new or proposed construction, when lack of market activity limits the effectiveness of the sales comparison approach, when land value is well supported, when improvements represent the best use of land, and for special-purpose or specialty properties not frequently exchanged.

Value Unique Property Features
As both real estate and insurance recognize that the physical characteristics or building components of comparable properties frequently differ significantly. In such instances, the value of these unique property features can most accurately be identified using the cost approach and that information later added to sales comparison or income totals as estimated adjustments.

Establish a Benchmark of Value
The cost approach has always served a crucial quality control function for real estate and insurance companies. The cost approach has historically been used to verify market-based estimates and to help identify a potential runaway or rapidly declining market. If the cost approach comes in well below market prices, it may be a signal that the market is raising beyond sustainable levels. If the cost approach comes in significantly above the market, it may signal that prices have dropped below reasonable levels. The cost approach is generally accepted standard that insurance companies use to determine compliance with insurance policy insurance to value requirements. In other words, the cost approach provides an objective information based and trustworthy benchmark.

Avoid Inflated Valuations
Accurate and objective valuations are at the heart of any successful real estate or insurance program. In order to ensure the integrity of insurance program and loan values, lenders and insurers employ an effective value review system that establishes accurate cost values and minimizes valuation differences. Both incorporate the cost approach into their regular operations.

Getting the Numbers Right
Marshall & Swift provides real estate and insurance companies with the industry’s largest and most accurate building cost database. Marshall & Swift’s cost estimating manuals and computer software valuation programs are broadly accepted as the “Gold Standard” in the real estate and insurance business. As markets evolve and costs change throughout the year, the Marshall & Swift database and valuation programs are updated quarterly to assure that its users have the most current building cost data available. Building cost information is available for the U.S., U.S. Territories and Canada.