XACTWARE®

WHITE PAPER

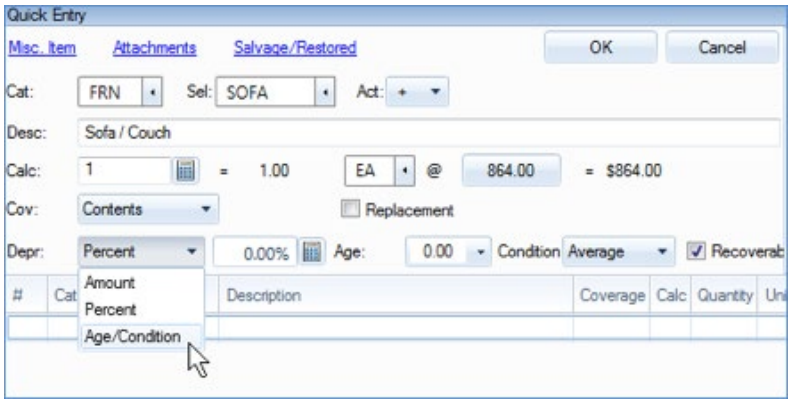
Calculating Depreciation for Structural and Personal Property Line Items

5.15.2015

INTRODUCTION

Xactimate 28 features a powerful depreciation calculator with multiple options to fit your workflow.

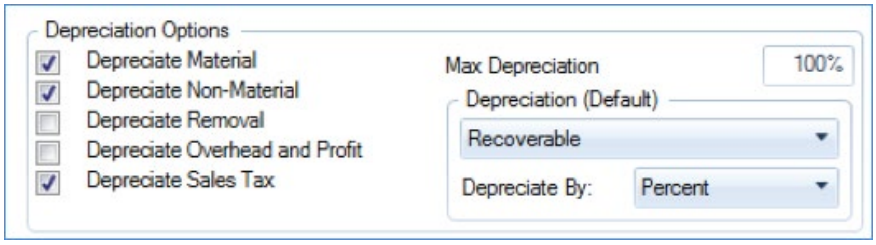
There are three options to calculate depreciation: Amount, Percent, or the Age/Condition of the item. When you select Percent or Amount, you can enter the appropriate number in the adjoining field. When you select Age/Condition, you can enter the age in years and select the condition of the item. After this information is entered, Xactimate automatically calculates the depreciation value.



There are three options to calculate depreciation: Amount, Percent, or the Age/Condition of the item

SETTING ESTIMATE-WIDE DEPRECIATION DEFAULTS

To set the depreciation defaults for an estimate, click the Claim Info tab and select Parameters. Depreciation options selected in this window only apply to newly added line items within the estimate. The same options may be set as defaults for all future estimates in User Preferences.



When you choose to depreciate items by Age/Condition, the calculation is based on information stored in the price list item.

DEPRECIATION CALCULATIONS BASED ON AGE/USE

When you choose to depreciate items by Age/Condition, the calculation is based on information stored in the price list item. Each Xactware price list and general quote item contains the item's suggested life expectancy, annual depreciation, and maximum depreciation.

Determining Average Life Expectancy

Many factors affect the lifespan of a product. For example, the quality of workmanship in the installation or manufacture of the product, how well the product is maintained, weather and climatic conditions (especially for exterior products), and the intensity of use all have an impact on how long a product is used. Providers of life-expectancy data for housing components and personal property either report information using a range from "best case" to "worst case", or simply provide an "average." Because the type of data provided by each source can vary, Xactware combines the information into a single average for each line item, and then allows modification to the suggested depreciation through the "Condition" option.

For detailed information about the life expectancy, annual depreciation, and maximum depreciation applied in Xactware price lists, visit the Xactware Abbreviated Depreciation Information document.

Determining the Appropriate Condition

The Condition option provides an easy and consistent means to modify the standard suggested depreciation, based solely on the item's age and condition. When calculating depreciation by age, a simple formula is used that divides the age by the life expectancy. For example, an item that is 10 years old and has an average life expectancy of 20 years, would calculate a suggested average depreciation of 50% (10 / 20 = .50). This formula works very well, but assumes a normal or average condition of the item.

Depreciation options are subject to a maximum depreciation which will, in most cases, default to 100% unless changed by a user or company.

Since items are not all used in the same manner or kept in the same condition, Xactware uses standard factors across all items to modify the age calculations described above.

Condition Option	Factor Applied
Average	1
Below Average	1.4
Above Average	.6
New	0
Replaced	0

For example, the same item that is 10 years old with a life expectancy of 20 years but has been kept in above average condition would have a depreciation of 30% ((10/20)*0.6=0.3).

Depreciation options are subject to a maximum depreciation which will, in most cases, default to 100% unless changed by a user or company.

AVERAGE LIFE EXPECTANCY DATA SOURCES

Real Property

Information on life expectancy is obtained from, and used with the express permission of, the National Association of Home Builders (NAHB). NAHB life-expectancy research is documented in their Life Expectancy of Housing Components report. This report was compiled from extensive research with manufacturers, installers, contractors, and home inspectors. It is widely used within the housing industry, and referenced on many sites such as the Housing and Urban Development site (www.huduser.org), The National Institute of Building Services, The Old House Web (www.oldhouseweb.net), and numerous private home inspection service and insurance agency sites. The report provided by the NAHB is the most comprehensive study available on the life expectancy of housing components.

Resources Used by the NAHB

The following is a partial list of the resources used by the NAHB in their life-expectancy research:

AHB life-expectancy research is documented in their Life Expectancy of Housing Components report. This report was compiled from extensive research with manufacturers, installers, contractors, and home inspectors.

- Kitchen Cabinet Manufacturers Association
- AFPA Associates of Western Plastics—Laminate Countertops
- Ceramic Tile Institute of America
- Wayne Dalton Corp
- National Wood Window and Door Association
- Raynor Garage Doors
- Brick Institute of America
- Carpet & Rug Institute
- Resilient Floor Covering Institute
- National Wood Flooring Association
- Marble Institute
- Hardwood Plywood Mfrs. Association
- National Terrazzo and Mosaic Association
- Congoleum Corporation
- ACRI Air Conditioning & Refrigeration Institute
- Air Movement & Control Association
- American Gas Association
- American Society of Gas Engineers
- Insulation Contractors Association of America

- North American Insulation Manufacturers Association
- National Stone Association
- American Concrete Pipe Association
- Cast Iron Soil and Pipe Institute
- National Roofing Contractors Association
- Alcoa Building Products
- Association of Wall and Ceiling Industries
- Safety Glazing Certification Council
- Screen Manufacturers Association
- Optimum Window Manufacturing

Xactware uses the Joint Military Industry Depreciation Guide (JMIDG) for personal property life-expectancy information. The JMIDG has been used for many years by the US military and the private moving industry to place a value on personal property damaged during a move.

Personal Property

Xactware uses the Joint Military Industry Depreciation Guide (JMIDG) for personal property life-expectancy information. The JMIDG has been used for many years by the US military and the private moving industry to place a value on personal property damaged during a move.

Xactware incorporates the information published by the GSA as a public resource.

CONCLUSION

In summary, Xactware's goal is to provide the most complete and up-to-date building cost and personal property replacement data available in the claims industry. It is important to note, however, that the depreciation information stored with each line item is based on average information gathered from various sources. Users should view this information as a suggestion and modify it as needed.

Actual condition of the item should always be taken into account by the estimator to ensure that the appropriate depreciation is applied, whether by a straight percentage, dollar value, or using the age-based calculations provided by Xactware.

XACTWARE®

Xactware.com

Xactware European Headquarters
4th Floor, 40 Gracechurch Street
London EC3V 0BT

Office: 020 7680 4970
Fax: 020 7680 4999

eusales@xactware.com

Canadian Sales Team
6-5509 Canotek Road
Ottawa, Ontario, Canada K1J 9J8

Office: (800) 931-9228
Fax: (877) 736-4373

canadiansales@xactware.com

Xactware in de Benelux

Eric Van der Wolk
The Insurance Toolbox, Managing Director

Mobielnr: +31 6 19 35 65 74

eusales@xactware.com

Xactware Corporate Headquarters
1100 West Traverse Parkway
Lehi, UT 84043

Office: (801) 764-5900
Fax: (801) 932-8013

xsales@xactware.com