

Q1

RECONSTRUCTION
COST ANALYSIS
2023

CANADA



This report provides reconstruction cost trends at the national and provincial levels from January 2022 to January 2023. The Reconstruction Cost Analysis is derived from property cost research based on 86 cities across Canada that have been identified as Opta's "Centres of Influence."

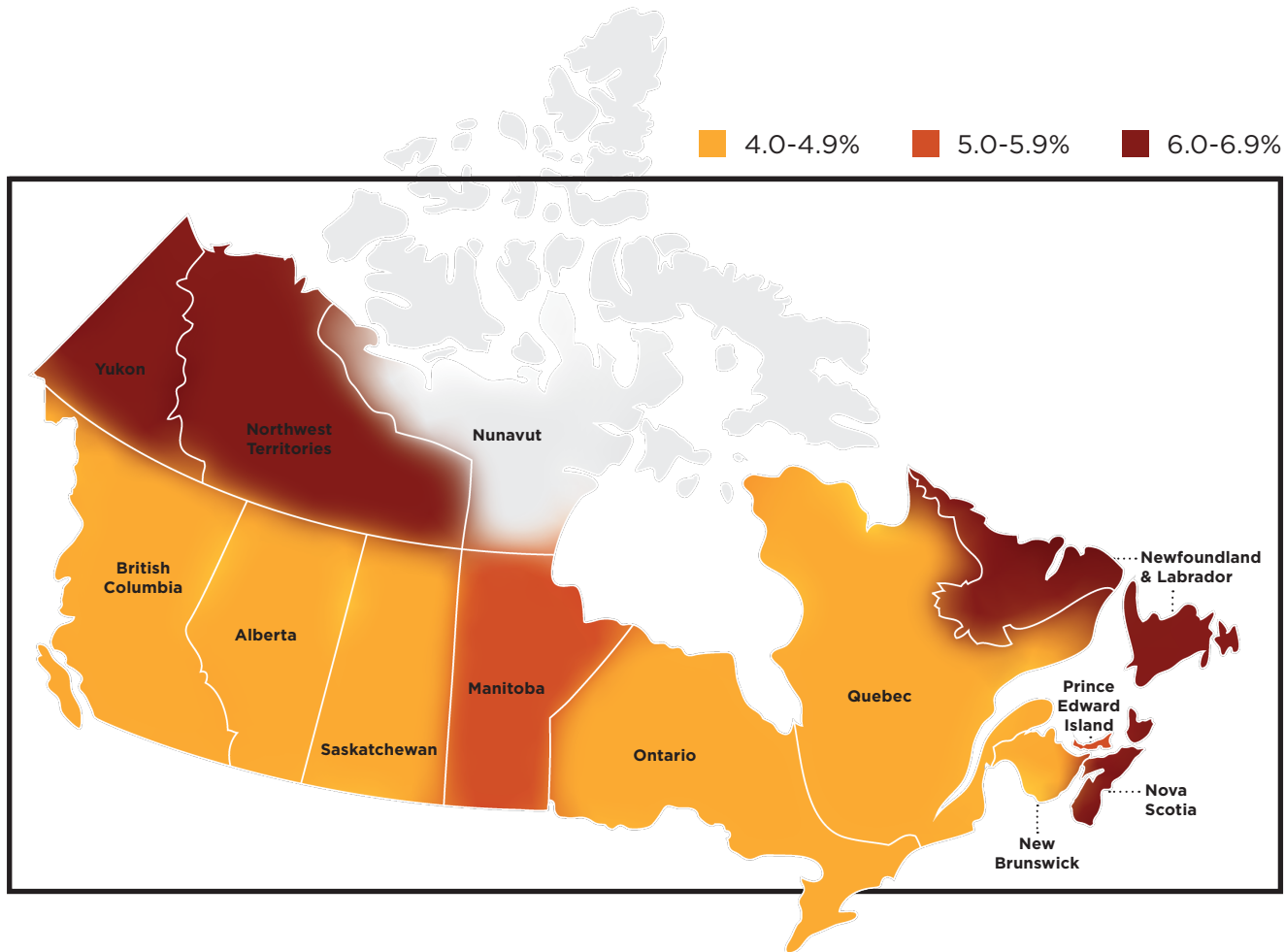
RECONSTRUCTION COSTS STILL UNDER PRESSURE



Inflation is expected to remain close to 7% with no significant improvement expected within the project timelines of current residential rebuilds. This factor, combined with high interest rates, makes costs uncertain for longer-term projects. Contractors have built this into estimates, as shown by year-on-year price increases. Effects from labour shortages now reach beyond restoration/mitigation into rebuilds, which are seeing costly capacity constraints and project delays. Gas prices are currently not a major issue in western Canada, but they remain relatively high in eastern Canada, which has affected rebuild project costs.

The biggest weather story of 2022 was Hurricane Fiona in Atlantic Canada in late September, which has contributed to continued high prices in the Maritimes. The total insured cost of this event is estimated now at \$800 million by the Insurance Bureau of Canada with uninsured losses expected to be multiples of this figure. Even uninsured losses affect pricing through overall demand on labour and materials. The effects of this event will continue well into 2023.

Reconstruction costs increased 4.8% YOY from January 2022 to January 2023 across Canada, following a 3.6% YOY rise in the preceding quarter.



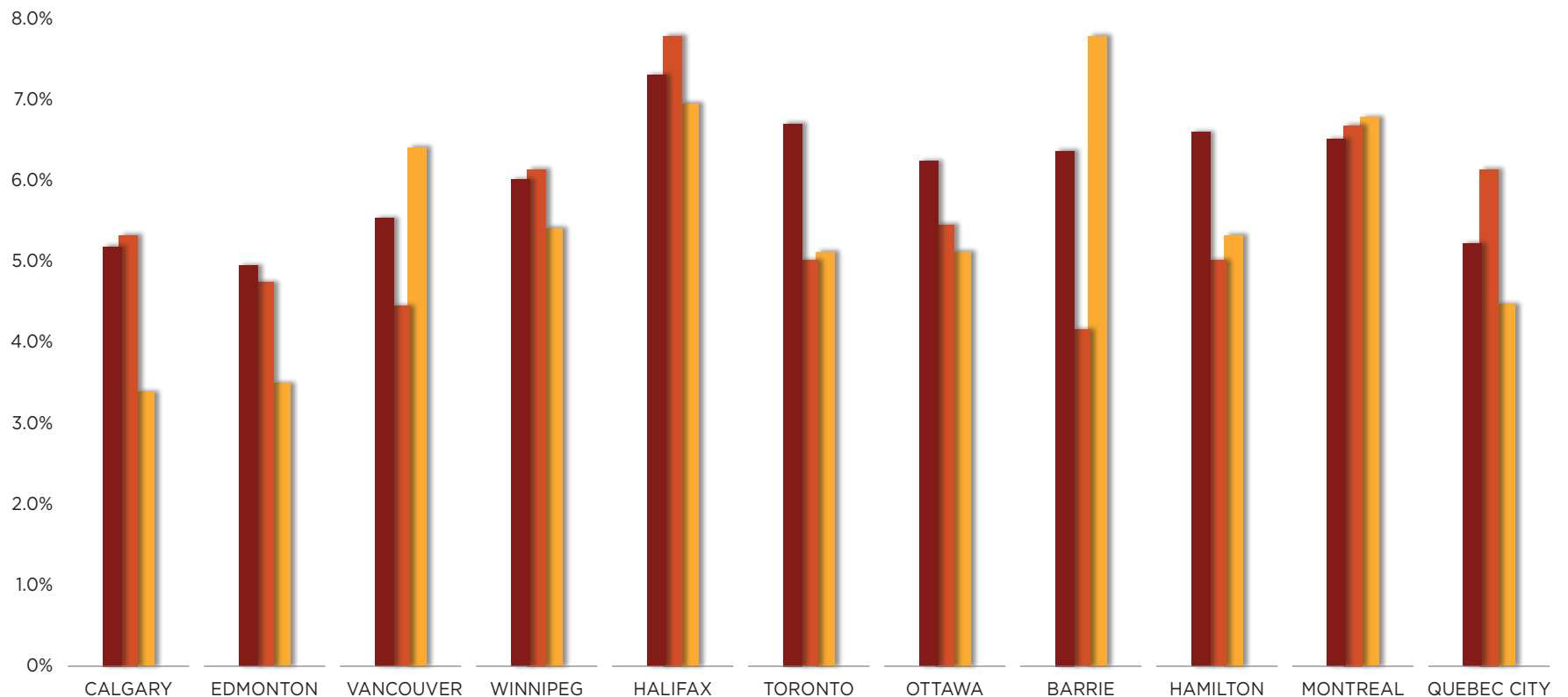
NT	6.8%
NL	6.7%
YT	6.6%
NS	6.4%
PEI	5.7%
MB	5.3%
QC	4.8%
SK	4.8%
ON	4.6%
NB	4.6%
BC	4.2%
AB	4.1%
National	4.8%

Alberta and British Columbia continue to show lower rates of increase than eastern Canada, coming in at 4.1% and 4.2% respectively across all three models. The highest square-foot cost increases occurred in Newfoundland, Nova Scotia, Northwest Territories, and Yukon, all showing YOY increases above 6%.

SQUARE FOOT COSTS

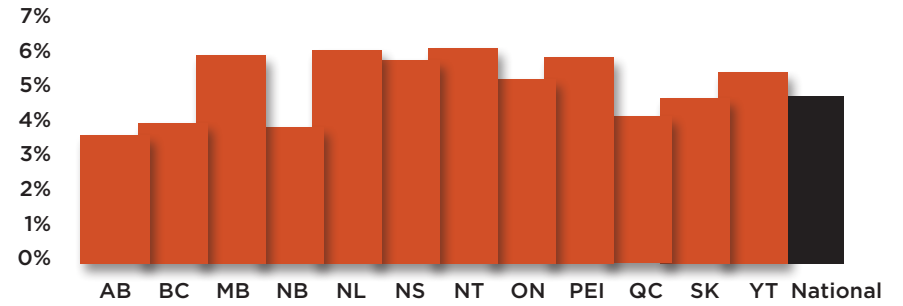
Comparing major cities, Halifax, Toronto, Hamilton, and Montreal lead YOY increases, and again, the major western Canada cities have dropped back.

■ 1,000 SF ■ 2,000 SF ■ 3,000 SF

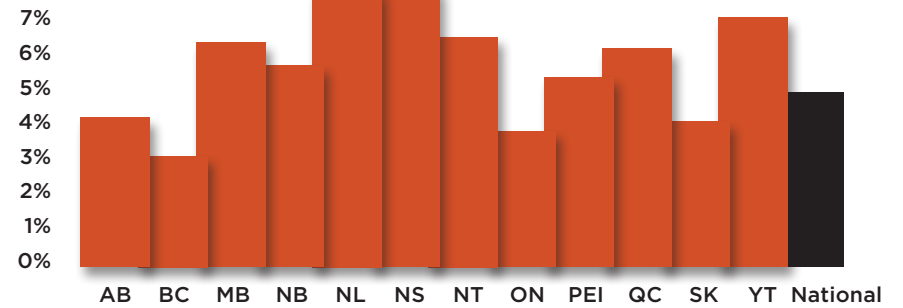


YOY SF CHANGES

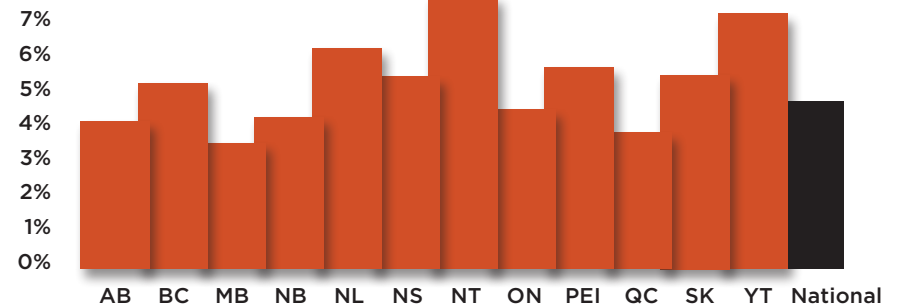
1,000 SF



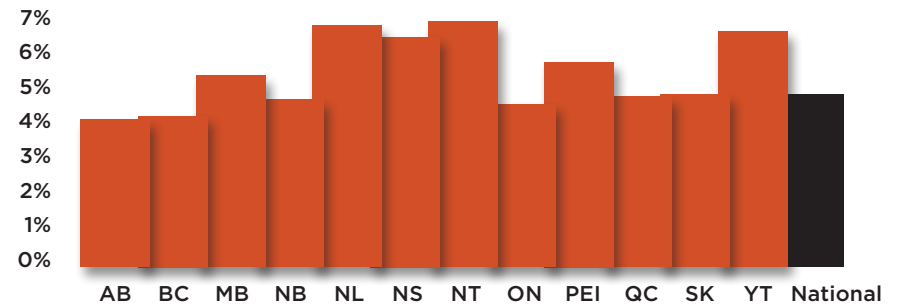
2,000 SF



3,000 SF



ALL



COMPONENT COSTS

Component costs show an overall increase of 4% YOY for January 2022 vs. January 2023. Below is a comparison of pricing differences to the previous quarter as well as YOY. Quarterly increases have slowed and, in the case of roofing and aluminum siding, dropped slightly since September 2022. Annual data shows a reduction in the rate of increase in Alberta and British Columbia but a slight increase in Manitoba. Eastern Canada also shows a reduction in the YOY increases.

Generally, these results reflect the overall improvement in supply chain delays and fewer insured weather events in the West.

JAN 23 VS SEP 22

Basement	Kitchen	Bathroom	Roofing	Alum. Siding
1.0%	1.2%	0.6%	-1.5%	-0.3%

YOY INCREASE BY PROVINCE

AB	BC	MB	NB	NL	NS	NT	ON	PEI	QC	SK	YT	National
4.0%	3.7%	4.1%	3.0%	4.1%	3.8%	3.9%	4.9%	4.0%	4.8%	4.1%	3.9%	4.0%

YOY INCREASE BY COMPONENT

Basement	Kitchen	Bathroom	Roofing	Alum. Siding	National
3.5%	4.3%	3.8%	4.4%	4.2%	4.0%

YOY INCREASE BY UNIT MODEL

1000SF	2000SF	3000SF
4.3%	3.8%	4.0%

YOY JAN 2023 TO JAN 2022 COMPONENT COST CHANGES

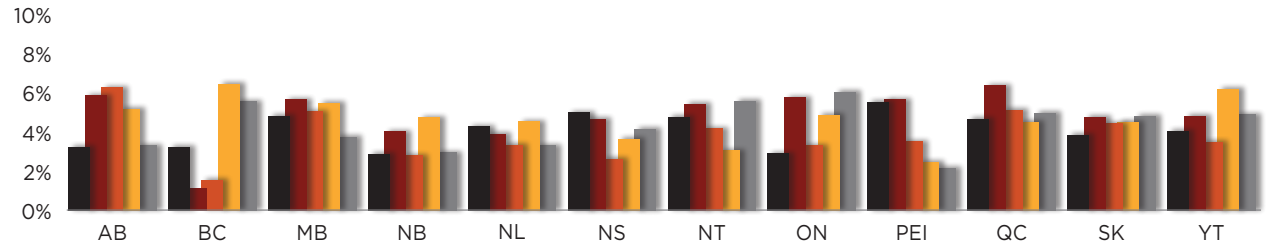
	Basement	Kitchen	Bathroom	Roofing	Alum. Siding
AB	1.9%	4.9%	4.7%	5.0%	3.7%
BC	3.0%	3.3%	2.7%	4.9%	4.6%
MB	2.7%	5.1%	5.1%	5.0%	2.8%
NB	2.3%	2.9%	2.5%	3.7%	3.6%
NL	3.8%	3.7%	4.2%	4.7%	4.4%
NS	3.7%	4.4%	2.8%	3.7%	4.4%
NT	3.6%	3.9%	3.1%	4.9%	4.2%
ON	5.0%	5.3%	4.4%	4.6%	5.4%
PEI	4.2%	4.2%	4.0%	3.5%	4.1%
QC	4.9%	5.2%	5.0%	4.4%	4.3%
SK	4.1%	3.9%	3.7%	4.5%	4.4%
YT	3.2%	4.2%	3.3%	4.2%	4.3%

COMPONENT COST BREAKDOWNS BY MODEL UNIT SIZE

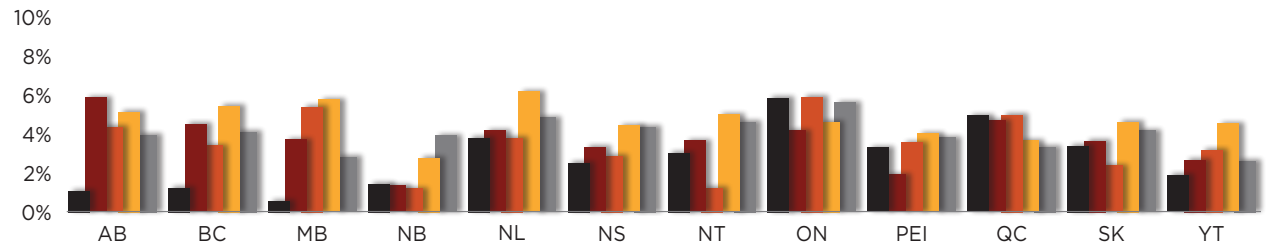
JAN 2023 VS JAN 2022

- Basement
- Kitchen
- Bathroom
- Roofing
- Alum. Siding

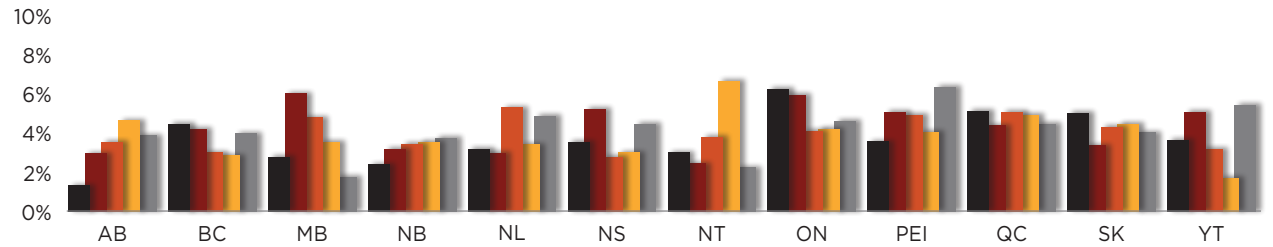
COMPONENT COSTS - 1,000 SF



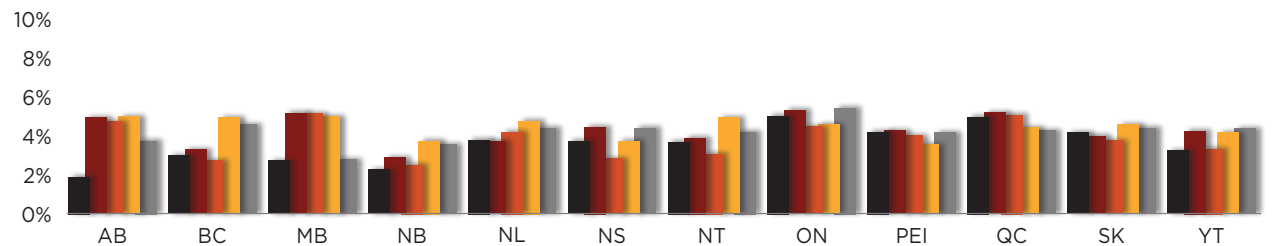
COMPONENT COSTS - 2,000 SF



COMPONENT COSTS - 3,000 SF

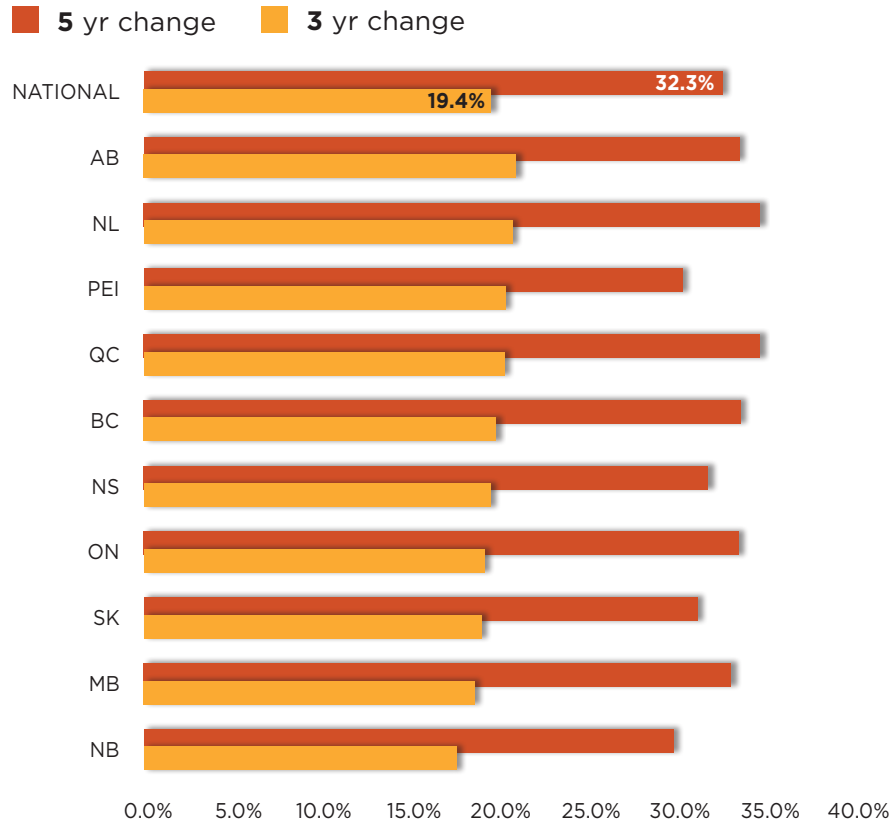


COMPONENT COSTS - NATIONAL



INFLATION GUARD NOT GOOD ENOUGH

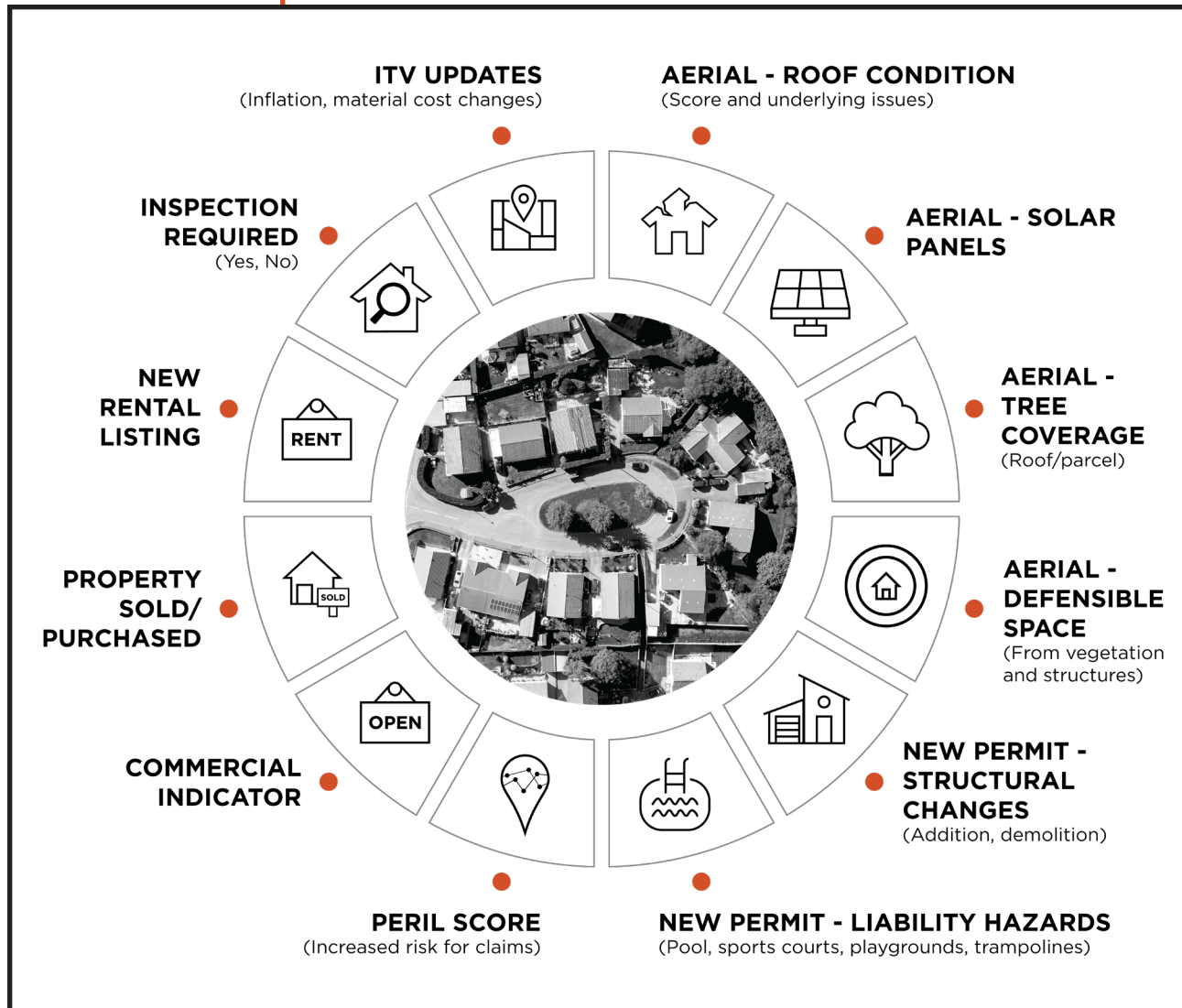
RESIDENTIAL SQ FT REBUILD CHANGE



In the decades when reconstruction prices shifted on average just 2%-4% a year, it was easy to accept “good enough” data, but as the pandemic triggered disruptions in supply chains and worker shortages, prices for materials and labour soared at triple-digit annual rates. Even after some prices retreated from pandemic highs, Opta’s data shows the cost to rebuild a property is still 12%-15% higher, on average, than it was pre-pandemic.

Applying inflation-indexed adjustments uniformly to insurance-to-value (ITV) masks variations in inflation across Canada and even across regions. Reconstruction costs across Canada increased 19.4% over the past three years and 32.3% in the past five years. But the reality for a given property could vary significantly and may only emerge through permit data, aerial imagery, technology-driven ITV tools, and continually updated component costs that reflect current inflation. Such granular views can guide more appropriate policy pricing and avoid lost premium that may result from a pure index-based approach that misses critical changes to a risk.

HOW ARE YOU UNCOVERING CHANGES AT RENEWAL?



Understanding what changes have occurred at address level is critical. From roof degradation to home renovations, building permits to real estate data, Opta can help you uncover more than 20 features that shift a property's risk profile to help you capture accurate premium, underwrite to your risk appetite, and protect profitability at renewal.

VALUATIONS VALIDATED BY GROUND TRUTH DATA

Province	Number of Storeys	Living Area (sq.ft.) (not including basement)	Finished Basement	Current Contractor Estimate (CE)	iClarify (iC) Valuation	iC/CE
AB	Bi-Level	2,604	No	\$669,199	\$680,373	2%
AB	1	1,500	Yes	\$565,396	\$557,700	-1%
AB	Bi-Level	2,520	No	\$645,972	\$653,839	1%
AB	1	1,020	Yes	\$300,032	\$302,134	1%
AB	1.5	1,600	Yes	\$509,924	\$524,896	3%
BC	2	2,000	No	\$505,440	\$517,540	2%
BC	Tri-Level	2,500	No	\$795,791	\$862,525	8%
BC	1.5	1,200	No	\$396,718	\$422,724	7%
BC	Tri-Level	2,083	Yes	\$711,380	\$701,054	-1%
BC	2	1,504	No	\$425,678	\$430,866	1%
MB	1	1,130	Yes	\$377,278	\$386,584	2%
MB	1	1,536	No	\$442,995	\$421,263	-5%
MB	1	1,196	Yes	\$560,357	\$573,685	2%
MB	1	992	No	\$270,840	\$264,785	-2%
MB	1.5	1,458	Yes	\$488,285	\$473,967	-3%
SK	1	2,105	Yes	\$660,626	\$679,136	3%
SK	1	1,000	Yes	\$299,364	\$296,140	-1%
SK	1	1,668	Yes	\$562,024	\$542,984	-3%
SK	Bi-Level	4,346	No	\$945,375	\$969,680	3%
SK	1	1,248	Yes	\$439,841	\$404,003	-8%

National Variance 1%

Opta, part of underwriting solutions at Verisk, is widely considered the industry standard for valuations and property risk intelligence. Opta's iClarify™ valuations are updated quarterly and are derived from extensive studies each year gathering local reconstruction cost data from 86 cities across Canada and through on-site loss control performed by Opta Precise Services. Opta also delivers quarterly insights and analysis using the largest repository of actual Canadian total loss data.

**The truest test
of valuation accuracy
is how it performs with
an actual total loss**

A recent analysis was conducted across Canada using 20 losses with an average variance of 1% between iClarify™ Valuations and Contractor Estimates. iClarify™ valuations have always remained strong and well within the industry benchmark of +/-15%.

INTEREST RATES AND RENTS STRAIN PERSONAL FINANCES

As interest rates continue to increase and inflation persists, the cost of living in Canada is concerning. The Office of the Superintendent of Financial Institutions (OSFI) has responded with recommendations surrounding Guideline B-20 to promote sound mortgage underwritingⁱ. Statistics Canada reports that Canadian household debt relative to disposable income increased to near-record highs in the past few decadesⁱⁱ. The OSFI policy change reflects concerns over consumers' ability to service their debt. Existing mortgage holders may need new ways to generate or save money or consider a refinancing or extending amortization. First-time home buyers will likely look at lower-value properties or potentially further postpone homebuying, even as prices correct.

A recent poll on Opta's LinkedIn page asked which increase was hurting consumers the most. Groceries led at 67%, followed by mortgage payments at 33%. While the cost of groceries and household items has immediate effects for all, mortgage payment changes currently affect only those in variable mortgages or who recently renewed. However, renewals are coming for many current homeowners who appear unprepared for the increase in their expenses.

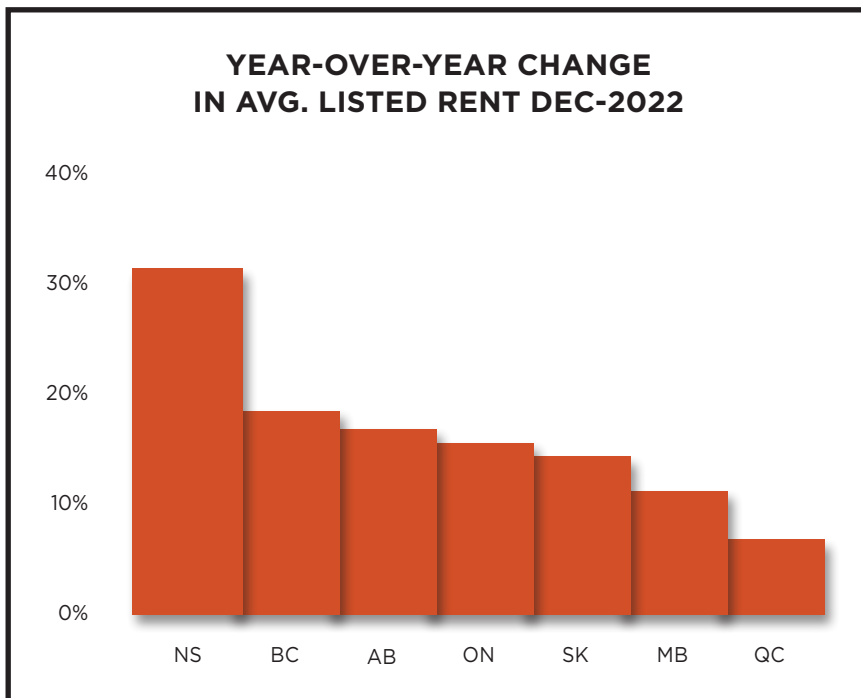
Historically, the alternative has been to rent over own, given the high cost of homeownership in Canada's major urban centres. However, the rental market is also rising, with the average in Canada reaching a record high at more than \$2000/month. Rentals.ca and Urbanization report that Toronto and Vancouver rents are up more than 23% since last yearⁱⁱⁱ. Provincially Nova Scotia shows the largest rent increase at 31%, almost comparable to Ontario. Rental demand is expected to hold steady or increase amid rising interest rates and inflationary struggles in Canada.

It's time to better understand market values on rented and owned primary residences or investment properties in your book. Opta can support an analysis of property use and current, historical, and forecasted values.

ⁱ <https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-lid/Pages/b20-nfo.aspx>

ⁱⁱ <https://www150.statcan.gc.ca/n1/daily-quotidien/220311/dq220311b-eng.htm>

ⁱⁱⁱ <https://rentals.ca/national-rent-report>



HOW'S YOUR PROPERTY BOOK HOLDING UP TO THE LATEST INFLATION SURGES?

The current macroeconomic environment of high interest rates and inflation is affecting the entire insurance ecosystem, and how insurers cover replacement costs is no exception. Opta's President Greg McCutcheon provides an update on the state of the industry when it comes to replacement costs, how interest rates and inflation are factoring into valuations, how brokers can keep clients apprised of the latest developments, and more in Canadian Underwriter's latest podcast. [Listen now](#)

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Insurance to value

FEATURING

GREG McCUTCHEON,
President, Opta Information Intelligence



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