

Q1

RECONSTRUCTION
COST ANALYSIS
CANADA

2024



KEY TRENDS

01

Inflation is still a concern, but there's significant confidence it will drop close to historical levels sometime in 2024, and lower interest rates will follow. The resulting recovery of the new construction industry will likely strain labour availability, so this is something to watch in late 2024 and throughout 2025.

02

Construction material costs continue to stay stable. Inventory levels at lumber mills have increased substantially, and the only material item that is an issue is steel, which continues to cost more than previously. Higher-grade materials and fittings will almost certainly see higher cost increases driven by production and supply-chain issues.

03

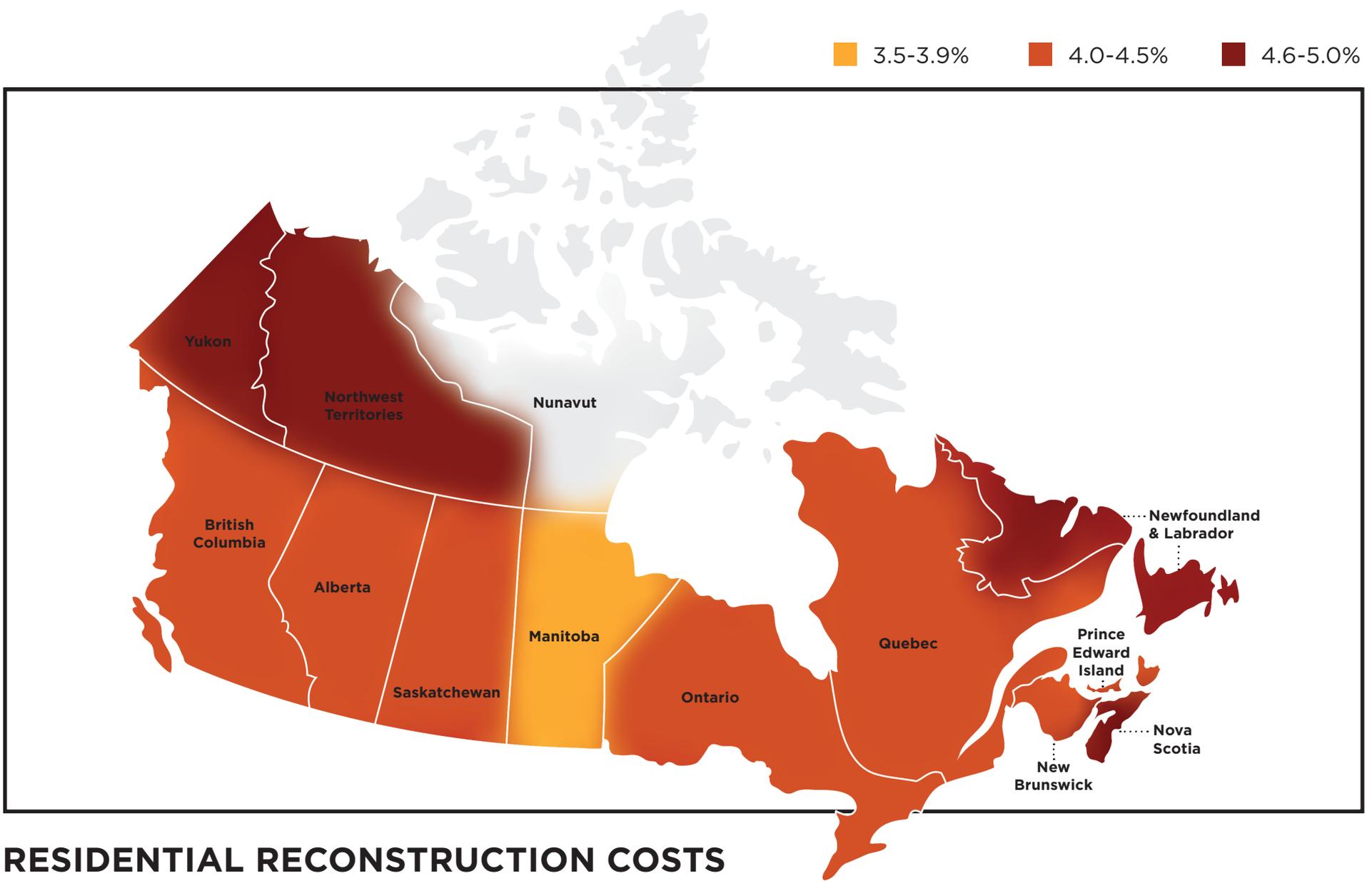
Component costs have increased year over year (YOY) but not at the levels seen in 2020 and 2021.

04

A downturn in new developments is somewhat mitigating **labour** shortages for now. Developers are looking for more certainty in interest rate moves by the Bank of Canada. Nevertheless, the long-term labour issues identified in earlier reports remain: Fewer people entering the trades and aging populations. Labour rates have increased slightly overall, but this is balanced by lower material costs.

05

Renovations were at all time high during pandemic but today, many Canadians don't have additional income to support home improvements.

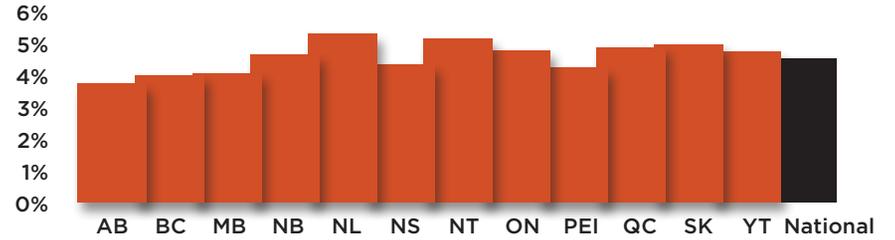


RESIDENTIAL RECONSTRUCTION COSTS

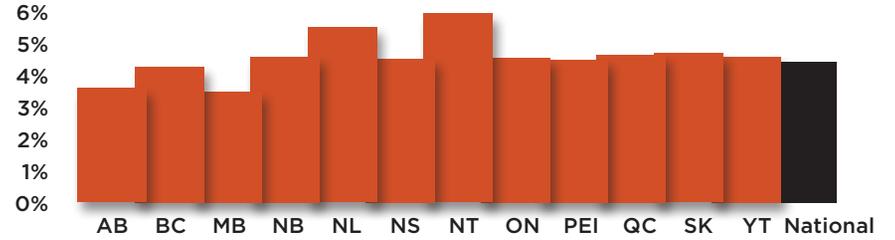
The rate of quarterly price increases has slowed further, and with the bulk of pandemic-related supply-chain issues now resolved and manufacturing mostly able to meet demand, we expect to see lower price volatility in 2024. That said, the entire core pricing platform has moved up to a new level after the pandemic, and it is certain that there is no going back to pre-COVID prices. Markets have absorbed the reality of current prices, and costs have mostly been passed on to end users. Accurate valuations for insurance to value (ITV) are a vital part of this process. The highest square-foot cost increases occurred in Newfoundland, with a year-on-year increase of 5.0%, while Manitoba had the lowest at 3.8%. The Atlantic Provinces' square foot prices now show the effects of 2023's weather and wildfire-related losses. Although the number of total rebuilds is relatively low, repair and restoration demands have affected rebuild prices.

YOY SF CHANGES

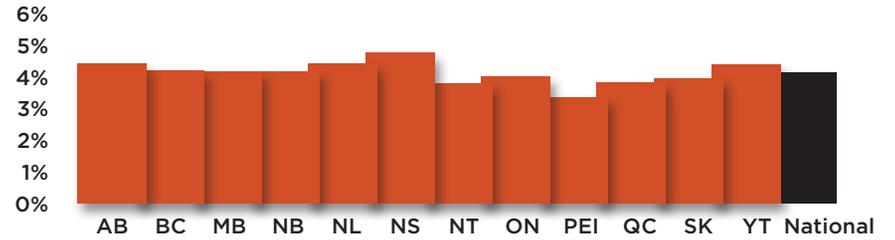
1,000 SF



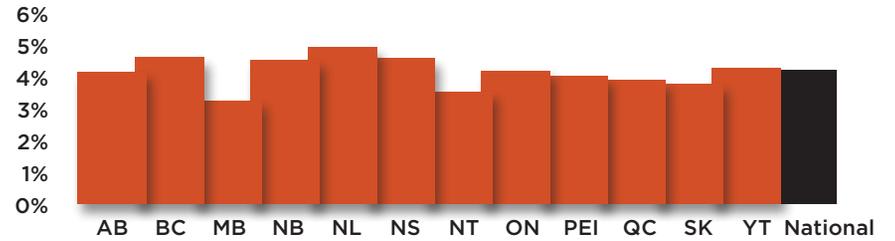
2,000 SF



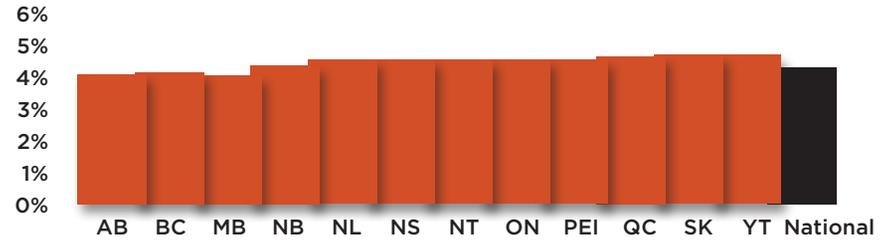
3,000 SF



4,000 SF



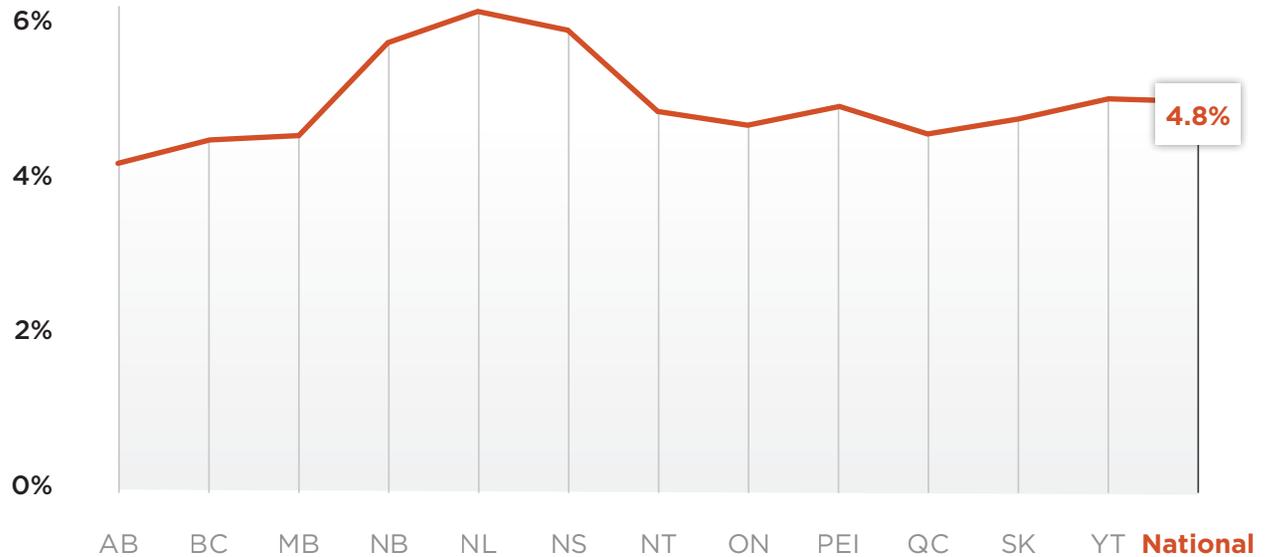
5,000 SF



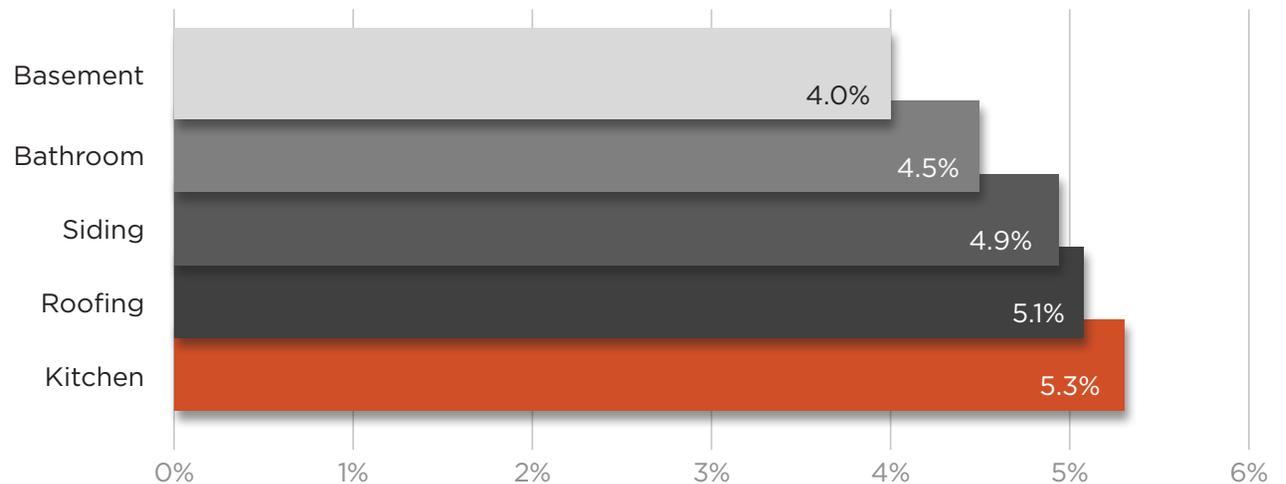
COMPONENT COSTS

YOY component cost increased in all provinces. However, the YOY average increase dropped from 5.2% in September 2023 to 4.8% in January 2024. Kitchen costs are higher than average because we have increased the dimensions of kitchen cabinetry in the 1000 SF, 2000 SF, and 3000 SF models. Roofing cost increases are higher in the Atlantic Provinces due to ongoing storm damage repair and replacement.

YOY COMPONENT COSTS JAN 2024 VS JAN 2023



JAN 2024 VS JAN 2023

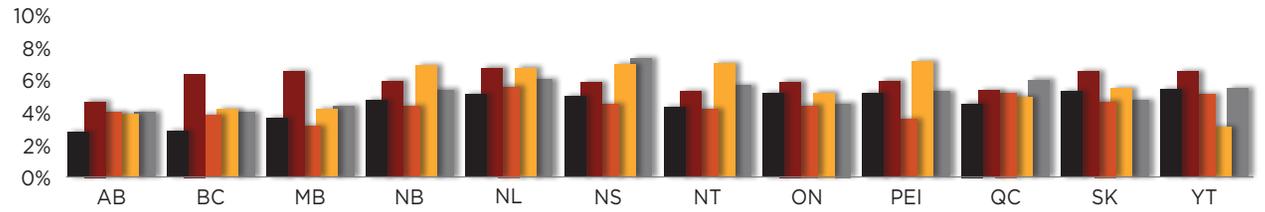


COMPONENT COST BREAKDOWNS BY MODEL UNIT SIZE

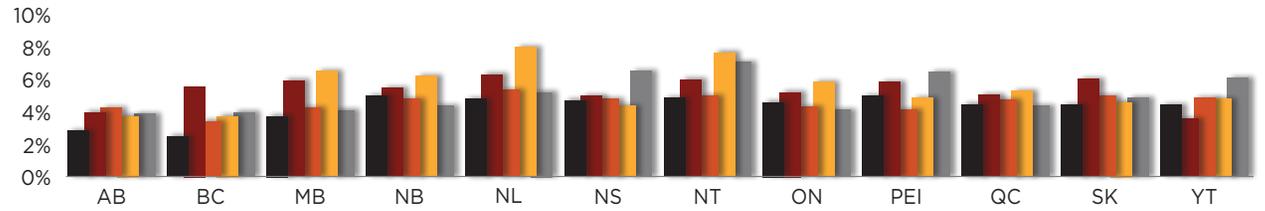
JAN 2024 VS JAN 2023

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

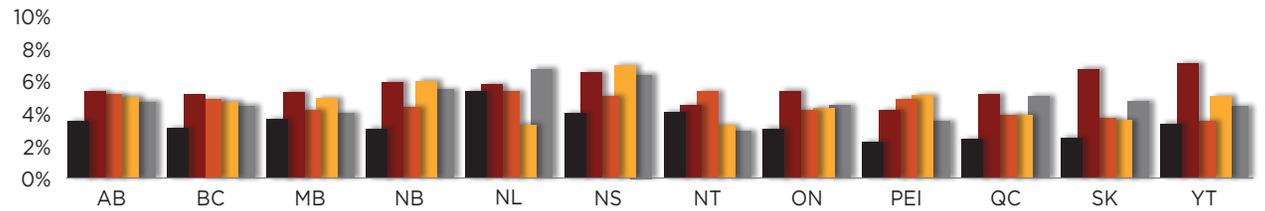
COMPONENT COSTS - 1,000 SF



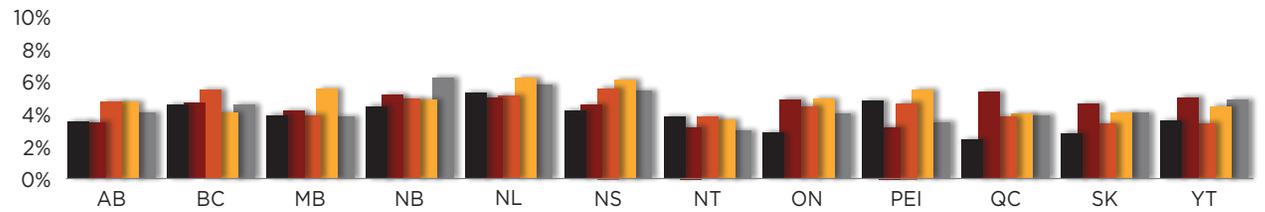
COMPONENT COSTS - 2,000 SF



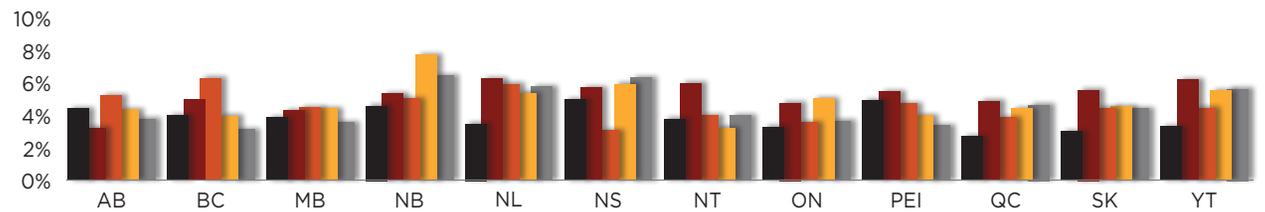
COMPONENT COSTS - 3,000 SF



COMPONENT COSTS - 4,000 SF



COMPONENT COSTS - 5,000 SF



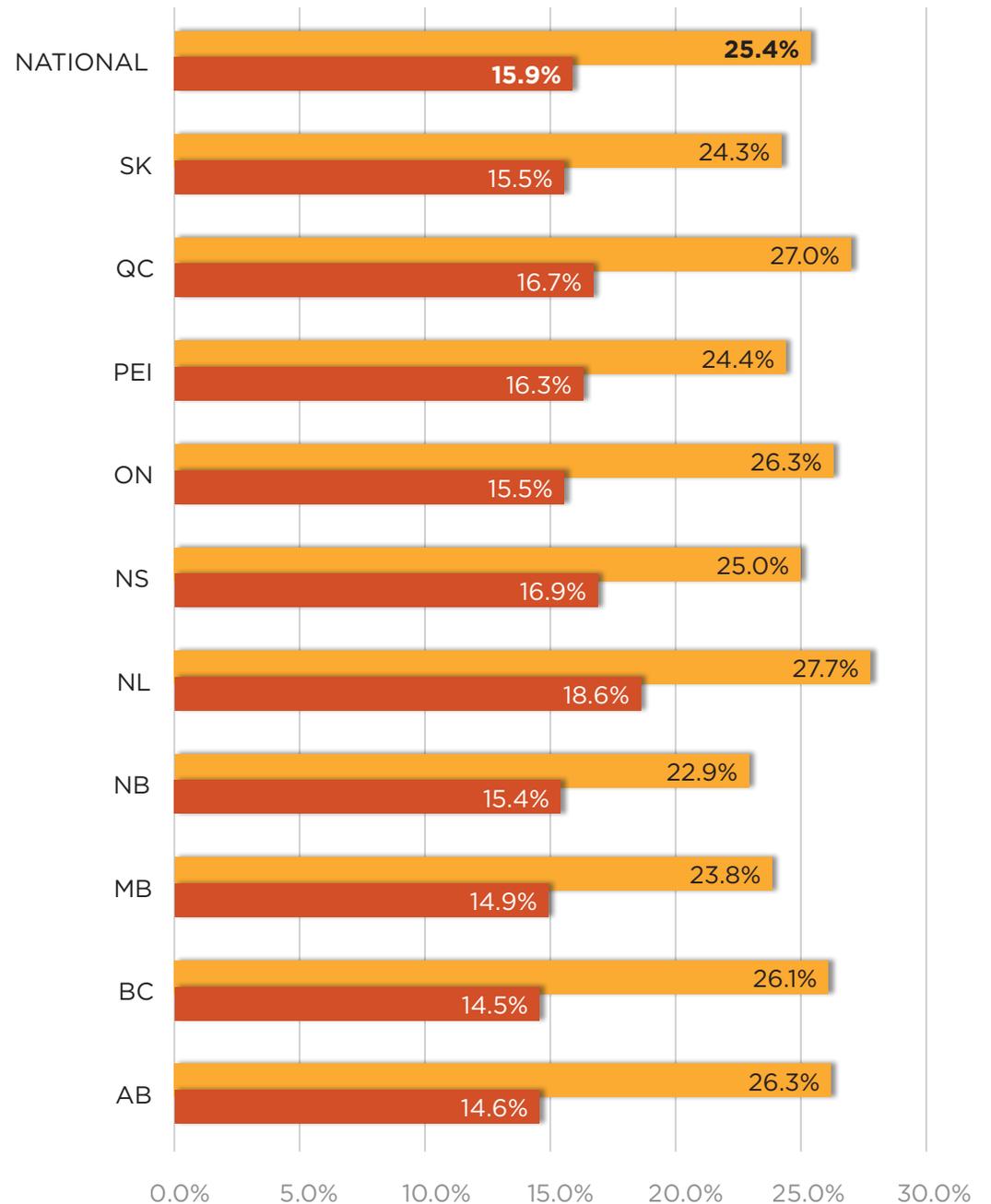
REBUILD COSTS REVEAL PRICE VOLATILITY— WITH ITV IMPLICATIONS

Opta's insights reveal how price volatility has grown and persisted over a 5-year span of Canadian residential insurance rebuild costs per square foot. This graph shows the annual average percentage increase each year—a cumulative rise of 25.4% in five years (base year Jan 2019) and a 15.9% rise in the past three years (base year Jan 2021). Such market forces could have serious implications for ITV in a portfolio built on unreliable valuations with outdated or incomplete data.

RESIDENTIAL SQ FT REBUILD CHANGE

■ 3 years

■ 5 years

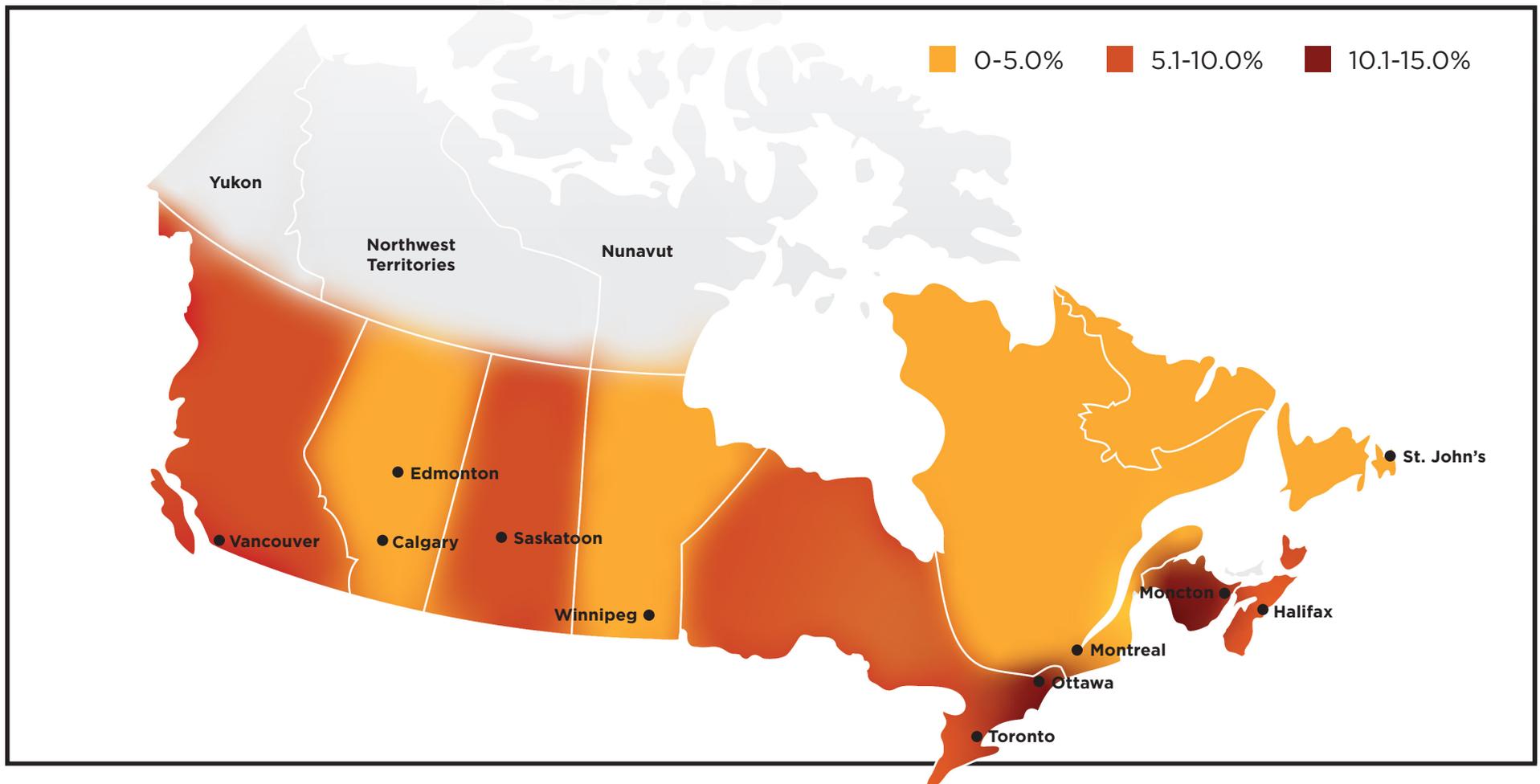


COMMERCIAL BUILDING CONSTRUCTION PRICE INDEX

YOY CHANGES (Q4 2023 VS Q4 2022)

The Building Construction Price Indexes (BCPI) are quarterly series tracked by Statistics Canada that measure change over time in the prices that contractors charge to construct a range of new commercial, institutional, industrial, and residential buildings. The series is limited to building construction in 11 census metropolitan areas (CMAs): St. John's, Moncton, Halifax, Montréal, Ottawa-Gatineau, Toronto, Winnipeg, Saskatoon, Calgary, Edmonton, and Vancouver.¹ The contractor's price reflects the value of all materials, labour, equipment, overhead, and profit to construct a new building. It excludes value-added taxes and any costs for land, land assembly, building design, land development, and real estate fees.²

The highest change occurred in Moncton with a YOY increase of 12.4%, while St. John's had the lowest at 4.0%. The YOY change for all 11 CMA's is 7.3%.

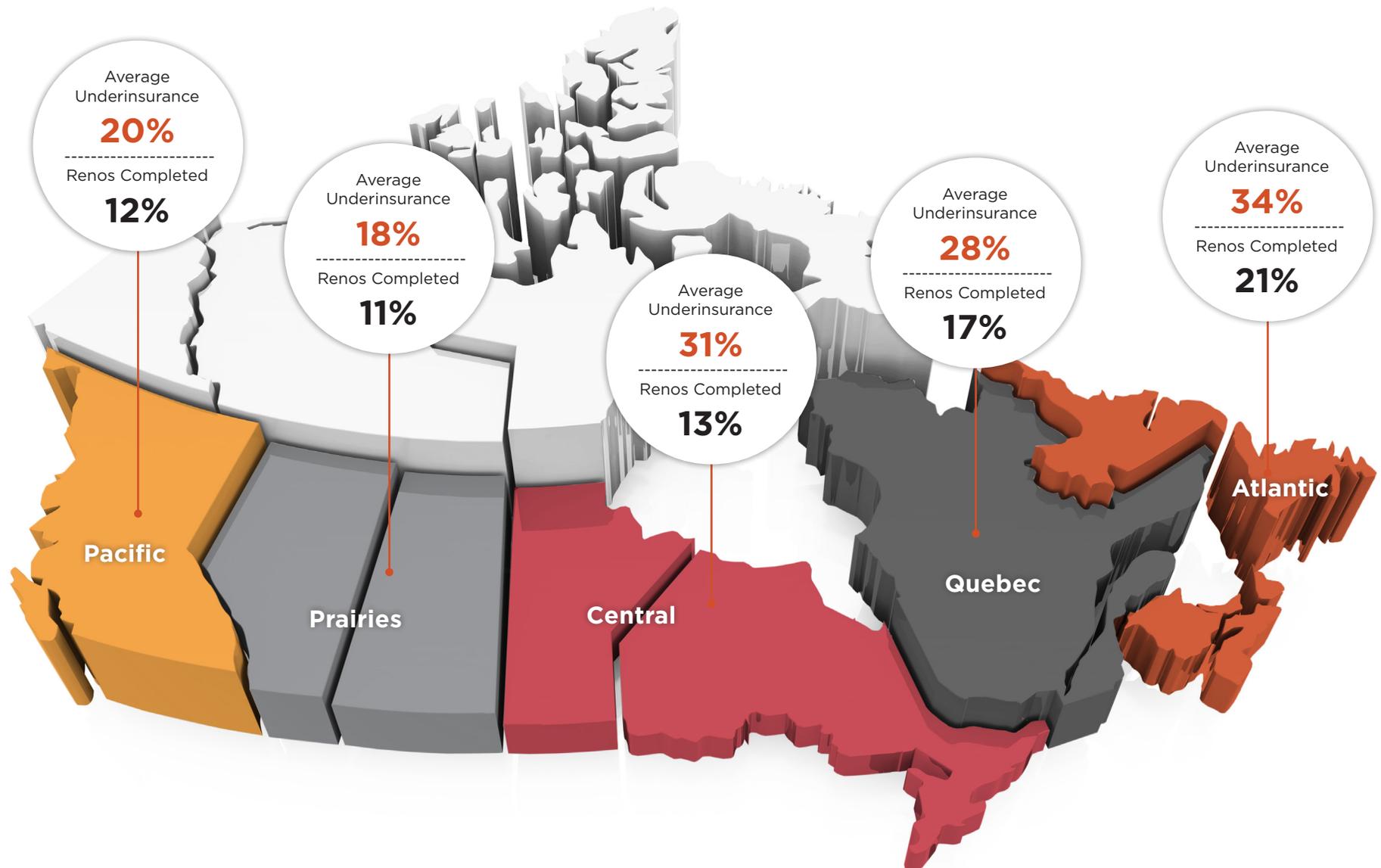


1 - <https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2022013-eng.htm>

2 - <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2317>

FOUR YEARS OF LOSS CONTROL INSPECTIONS REVEAL WIDESPREAD UNDERINSURANCE

Opta Precise Services loss control team uncovers risk daily, gathering ground-truth data that provides the industry with the most up-to-date view of risk. Inspections, now more than ever, serve as a key underwriting tool to identify premium-impacting changes or new exposures. Since January 2020, we uncovered significant underinsurance in each province. Nationally, 48% of homes inspected since January 2020 were underinsured by as much as 50%. The Atlantic provinces led the way with the highest underinsurance and largest renovation count.



HOW ARE YOU DETECTING CHANGE IN YOUR PORTFOLIO?

2020

Current - Addition



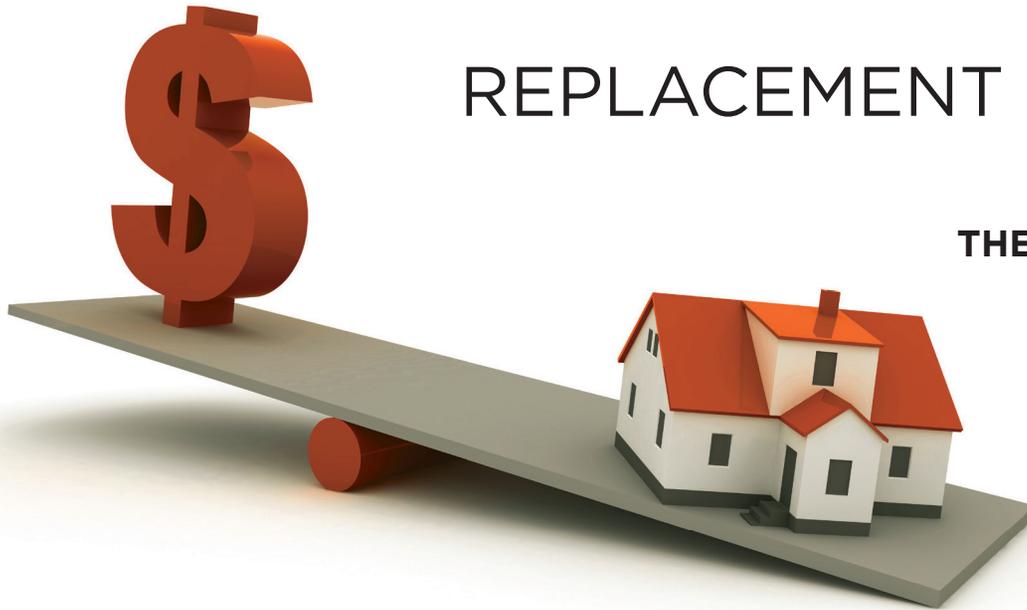
Understanding what changes have occurred at address level is critical. From roof degradation to peril exposures, permit activity to occupancy changes, uncover more than 20 features that shift a property's risk profile to help you capture accurate premium, underwrite to your risk appetite, and protect profitability at renewal.

2018

Current - Condominiums



- Structural remodels/additions
- Major systems updates
- Liability hazards added/altered
- Roof condition/defensible space
- Peril exposures
- Flood/wildfire
- Fire protection
- Vacancy/occupancy changes
- Changes in ownership status
- ITV Updates



REPLACEMENT COST **VS** MARKET VALUE OF A HOME

THE DIFFERENCE AND THE IMPACT OF INFLATION

REPLACEMENT COST

Replacement cost, which excludes land value, is the expected cost of rebuilding the home at the same location, with the same construction quality, at today's labour and material costs. Insurers use and rely on this value to structure homeowners insurance policies. Replacement cost values include builder's overhead and profit, architect fees, and other associated reconstruction costs, including debris removal. The underlying basis of the estimate is localized material, labor, and equipment costs for reconstruction.

HOW IS INFLATION INVOLVED?

Inflation has driven replacement costs to new heights in the past 5 years: 25.4% since January 2019.*

*see chart on page 7

MARKET VALUE

Market Value is the current potential sale or purchase price and varies depending on geographic location, age, condition, floorplan, desirability, and many other factors. Mortgage lenders are particularly interested in market value to understand the loan-to-value ratio on mortgages and property-level mortgage risk. Market value typically includes land value and all property elements—landscaping, fencing, detached structures, pools, gazebos, etc.

VS

HOW IS INFLATION INVOLVED?

In efforts to combat inflation, mortgage rates rose significantly, reaching 5% in 2023—the highest since April 2001 in Canada. This, plus affordability challenges and new lending rules, has slowed real estate market transactions significantly.

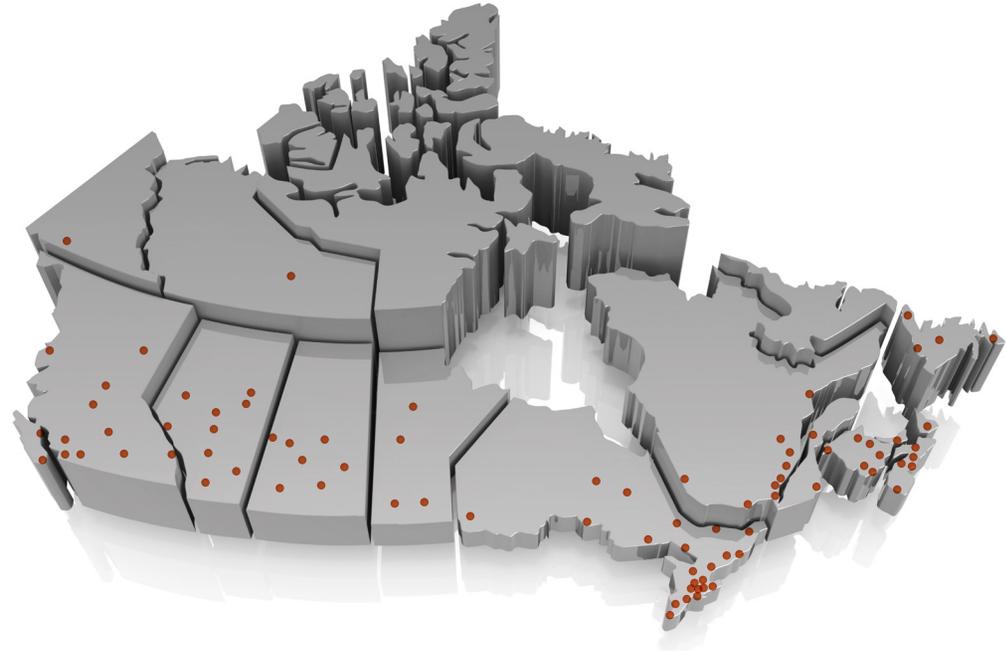
Replacement cost and market value should not be compared but rather viewed as separate values.

ABOUT THIS REPORT

Opta's cost updates 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. Quarterly insights and analysis are also conducted using the largest repository of actual Canadian total loss data.

OPTA'S 86 CENTRES OF INFLUENCE

Data is collected from 300 licensed contractors across 86 cities in Canada identified as "Centres of Influence" and generate more than 7,750 data points annually that are used to validate the accuracy and regional relevance of iClarify™ replacement costs in Canada. Local taxes, overhead and profit, productivity, debris removal, general conditions, and other essential costs are completely and accurately reflected in the local reconstruction values of homes.



British Columbia

Chilliwack
Cranbrook
Fort St John
Kamloops
Kelowna
Nanaimo
Prince George
Prince Rupert
Vancouver
Victoria
Whistler
Williams Lake

Alberta

Canmore
Edmonton

Fort McMurray

Grande Prairie
Jasper
Lethbridge
Medicine Hat
Red Deer
Wood Buffalo

Saskatchewan

Lloydminster
North Battleford
Prince Albert
Regina
Saskatoon
Swift Current
Yorkton

Manitoba

Brandon
Grand Rapids
Thompson
Winnipeg

Ontario

Barrie
Guelph
Hamilton
Kapusking
Kenora
Kingston
Kitchener
London
Norfolk
North Bay

Oshawa

Ottawa
Parry Sound
Peterborough
Peterborough
Sarnia
Sault St Marie
St Catherines
Sudbury
Thunder Bay
Timmins
Toronto
Windsor

PEI

Charlottetown

Quebec

Chicoutimi
Gatineau
Montreal
Quebec City
Rimouski
Rouyn Noranda
Saint Hyacinthe
Sept-Iles
Sherbrooke
Sorel-Tracey
Trois Rivieres

Atlantic

Bathurst
Corner Brook
Edmunston

Fredericton

Grand Falls
Halifax
Kentville
Miramachi
Moncton
New Glasgow
Saint John
St. Anthony
St. John's
Sydney
Truro
Yarmouth

Northern Canada

Yellowknife
Whitehorse

ABOUT OPTA

Opta, a Verisk company, is Canada's leading provider of property intelligence and technology solutions. With a history rooted in the Canadian Fire Underwriters' Association (founded in 1883), Opta possesses the most comprehensive structured risk information property database in Canada. Recognized as an innovator for its creation of industry-leading iClarify™ property validation tool, Opta delivers valuable business intelligence, powering digital transformations for insurers and financial services companies.

For additional information on Opta, visit optaintel.ca

For inquiries related to this report, contact info@optaintel.ca

Sign up to get the latest news, product updates and industry reports.

JOIN THE LIST

