

# Q3

## RECONSTRUCTION COST ANALYSIS CANADA

SEPTEMBER 2023



# KEY TRENDS

01

**Inflation** has crept back up to 4% overall, underscoring the power of energy costs to drive volatility. The overall impact on insurance rebuilds is moderate, with signs that there may be some impact on equipment replacement by contractors. Vehicle replacement is an ongoing issue due to long-term production delays and high interest rates. While none of these issues have a direct and immediate impact on insurance rebuilds, quality weaknesses will creep into rebuilds over time, and these generally become apparent years later.

02

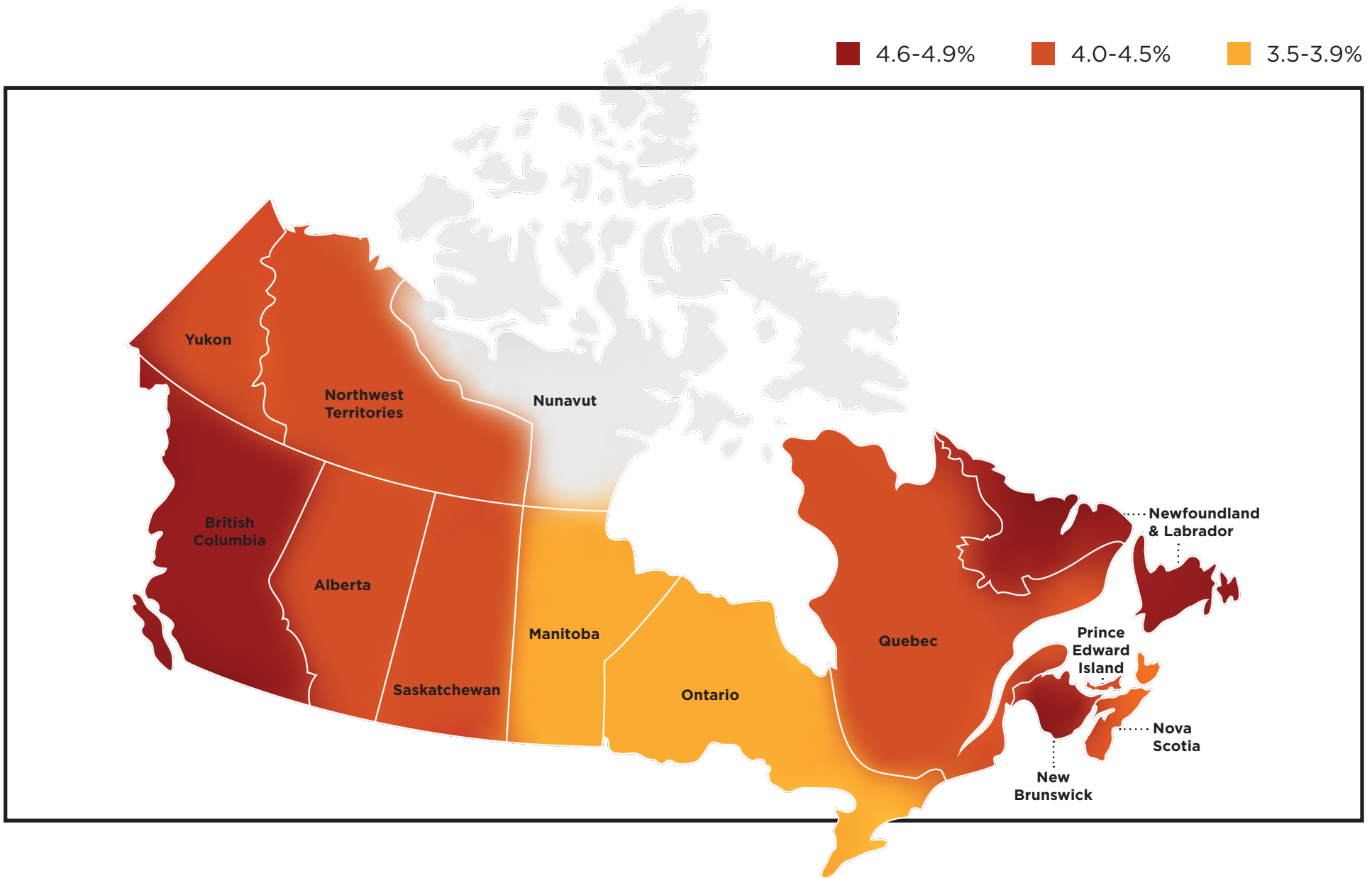
**Construction material** costs have remained stable over the summer. The forest fires that occurred this summer may affect lumber prices, but this is not currently an issue because demand is slightly depressed given the slow-down in new home construction—and now that home renovations have dropped back to traditional levels. Overall, stable material prices have helped square-foot costs stay relatively static during 2023.

03

**Labour** shortages are still affecting construction. In addition to fewer people entering the trades and rising demand for new housing, demographics also plays a part because eastern Canada generally has an older population than western Canada and retirements therefore are creating a growing gap. This is one reason cost increases are more evident in the Atlantic provinces. However, insurance rebuilds aren't affected as badly as new residential construction because higher interest rates and inflation have slowed the latter. This contraction in new construction has freed some labour for the insurance industry. Nevertheless, the cost of hiring and retaining qualified technicians and project managers across the country is increasingly problematic.

04

**Component costs** have increased 5.2% year-over-year (YOY). The continuous increases in interest rates are affecting the cost of manufacturing items that require material inputs and driving slightly higher inflation toward the second half of this reporting period. Inflationary pressures have affected component costs more than overall square-foot costs.

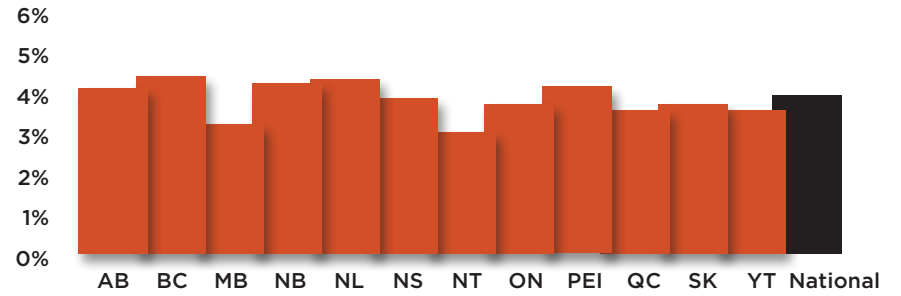


## RESIDENTIAL RECONSTRUCTION COSTS

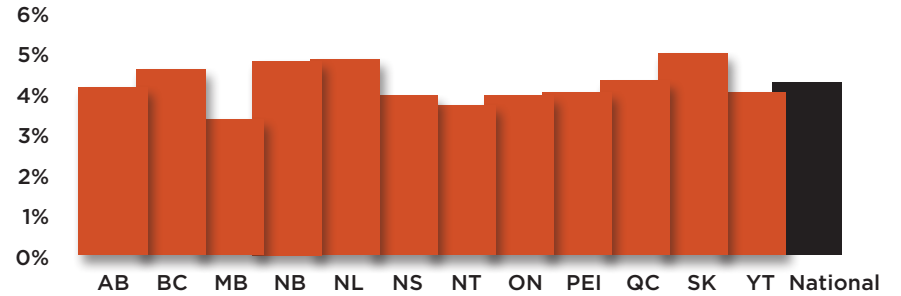
Provincial data is relatively static, with very little change from midyear. The highest square-foot cost increases occurred in British Columbia, with a YOY increase of 4.7%, while Manitoba had the lowest at 3.6%. This year's weather and wildfire-related losses have not yet dropped into our reporting cycle, but we expect to see the effects in the next few months. Despite 2023 being the worst year ever for Canadian wildfires, the number of residential units damaged or destroyed is, fortunately, quite low so far.

# YOY SF CHANGES

1,000 SF

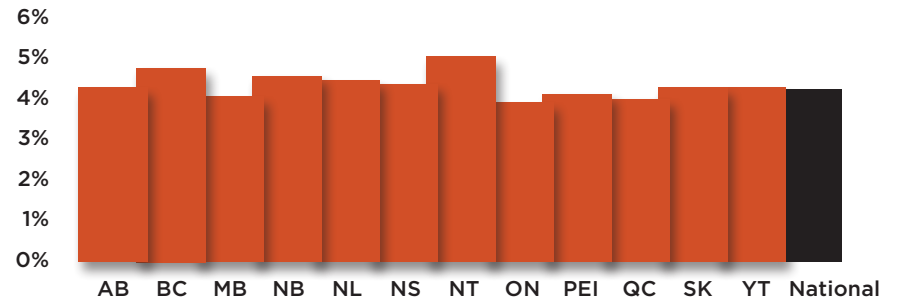


2,000 SF

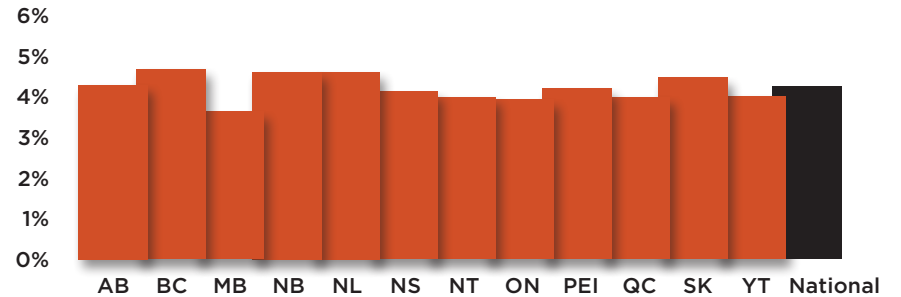


3,000 SF

Highest increase seen in this model



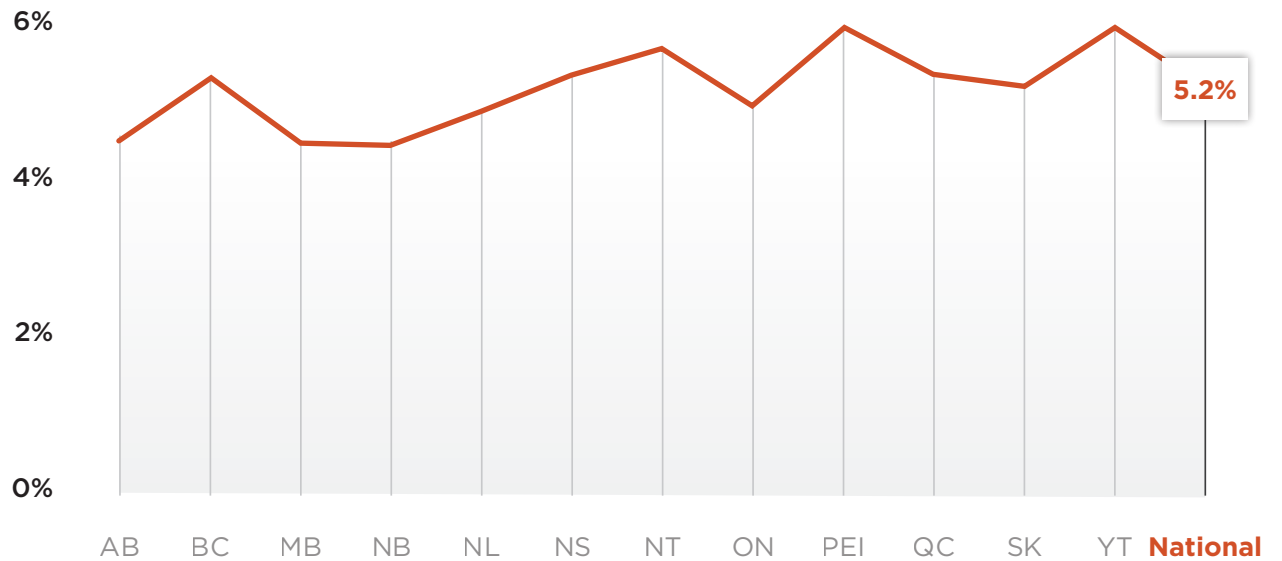
ALL



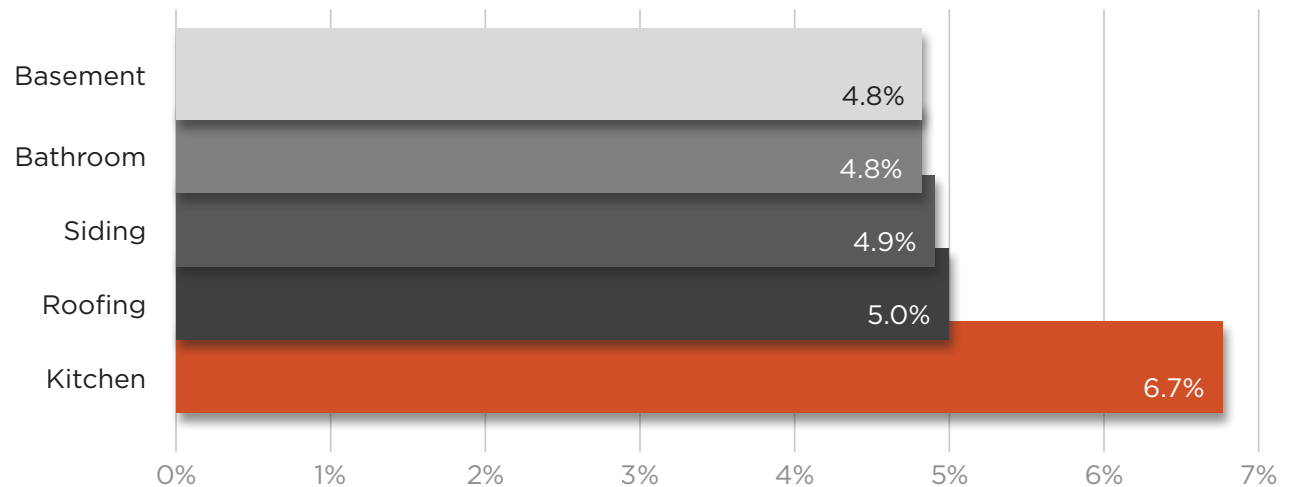
# COMPONENT COSTS

Annual data shows an increase in the YOY rate of increase in all provinces. Overall, the national YOY rate increased from 3.7% in May 2023 to its current 5.2%.

### YOY COMPONENT COSTS SEPT 2023 VS SEPT 2022



### SEPT 2023 VS SEPT 2022

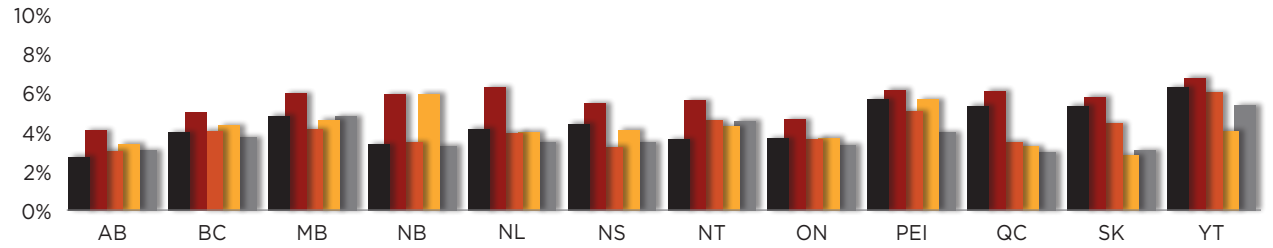


# COMPONENT COST BREAKDOWNS BY MODEL UNIT SIZE

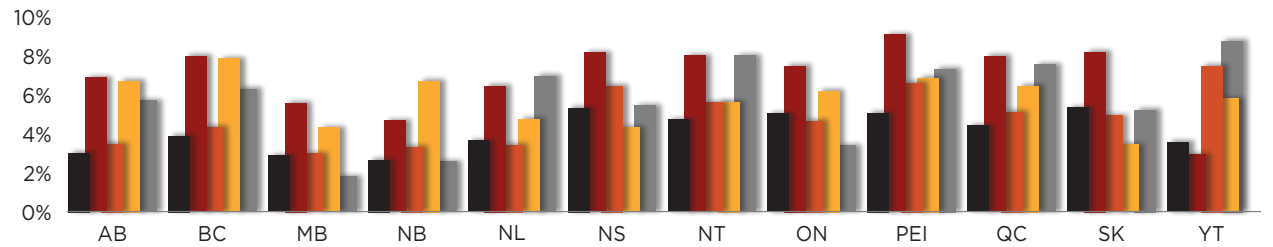
SEPT 2023 VS SEPT 2022

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

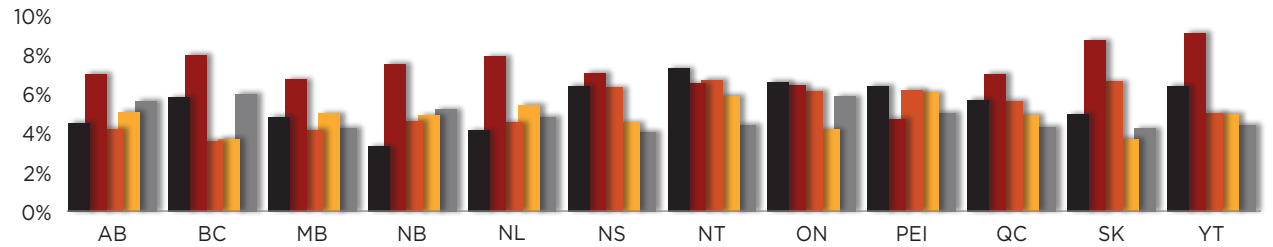
## COMPONENT COSTS - 1,000 SF



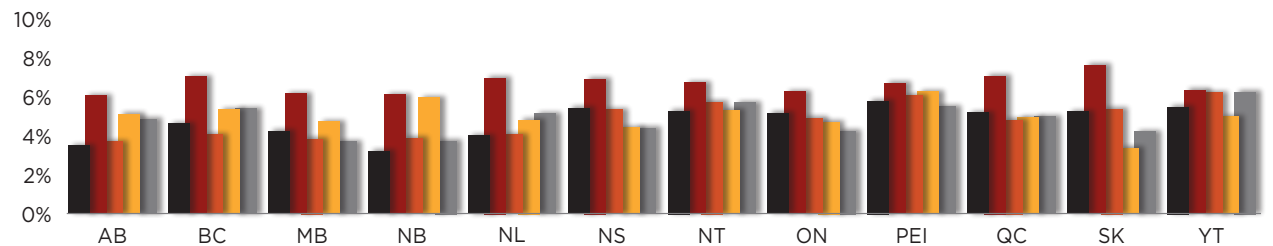
## COMPONENT COSTS - 2,000 SF



## COMPONENT COSTS - 3,000 SF

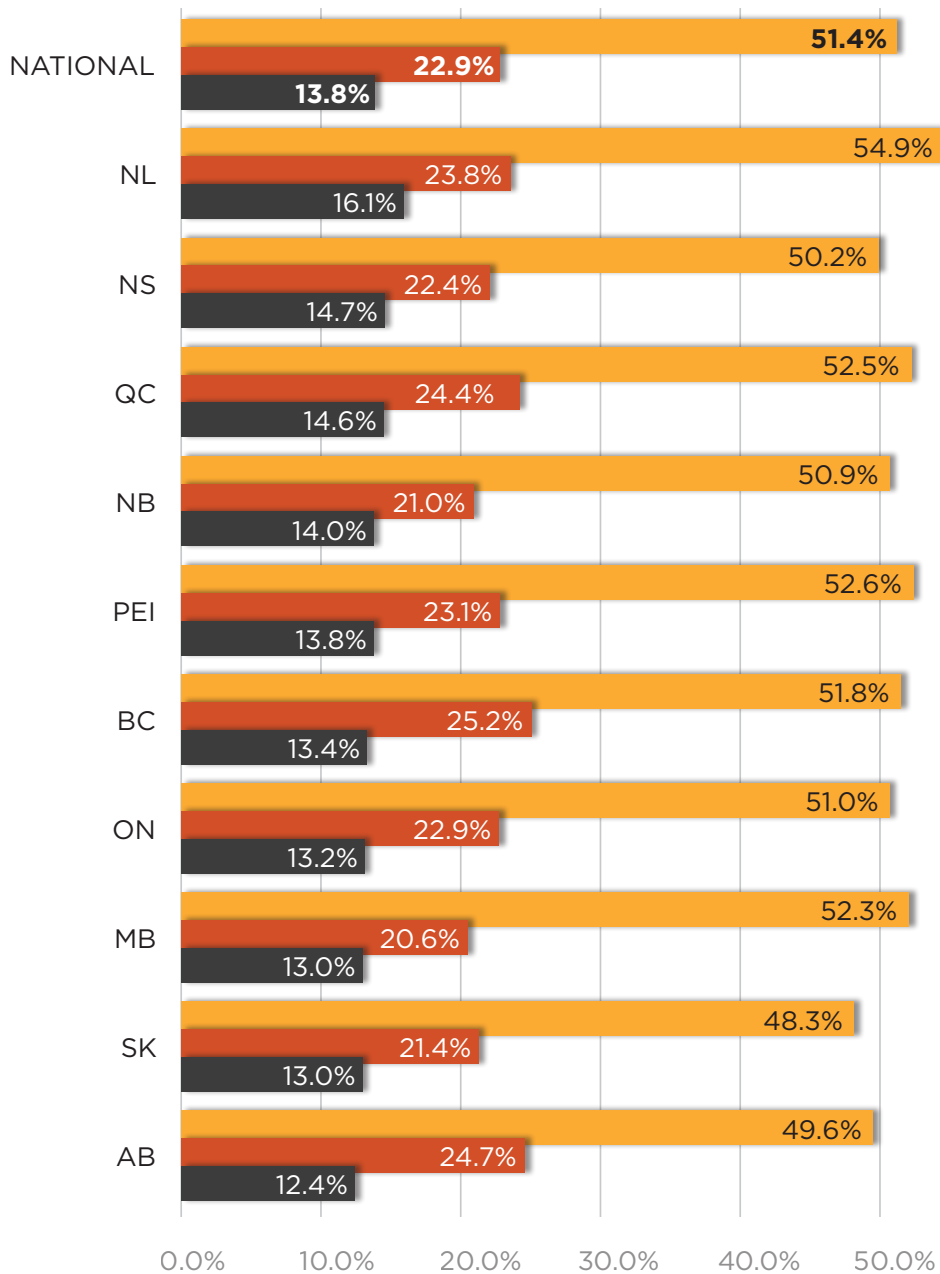


## COMPONENT COSTS - NATIONAL



## RESIDENTIAL SQ FT REBUILD CHANGE

■ 3 years ■ 5 years ■ 10 years



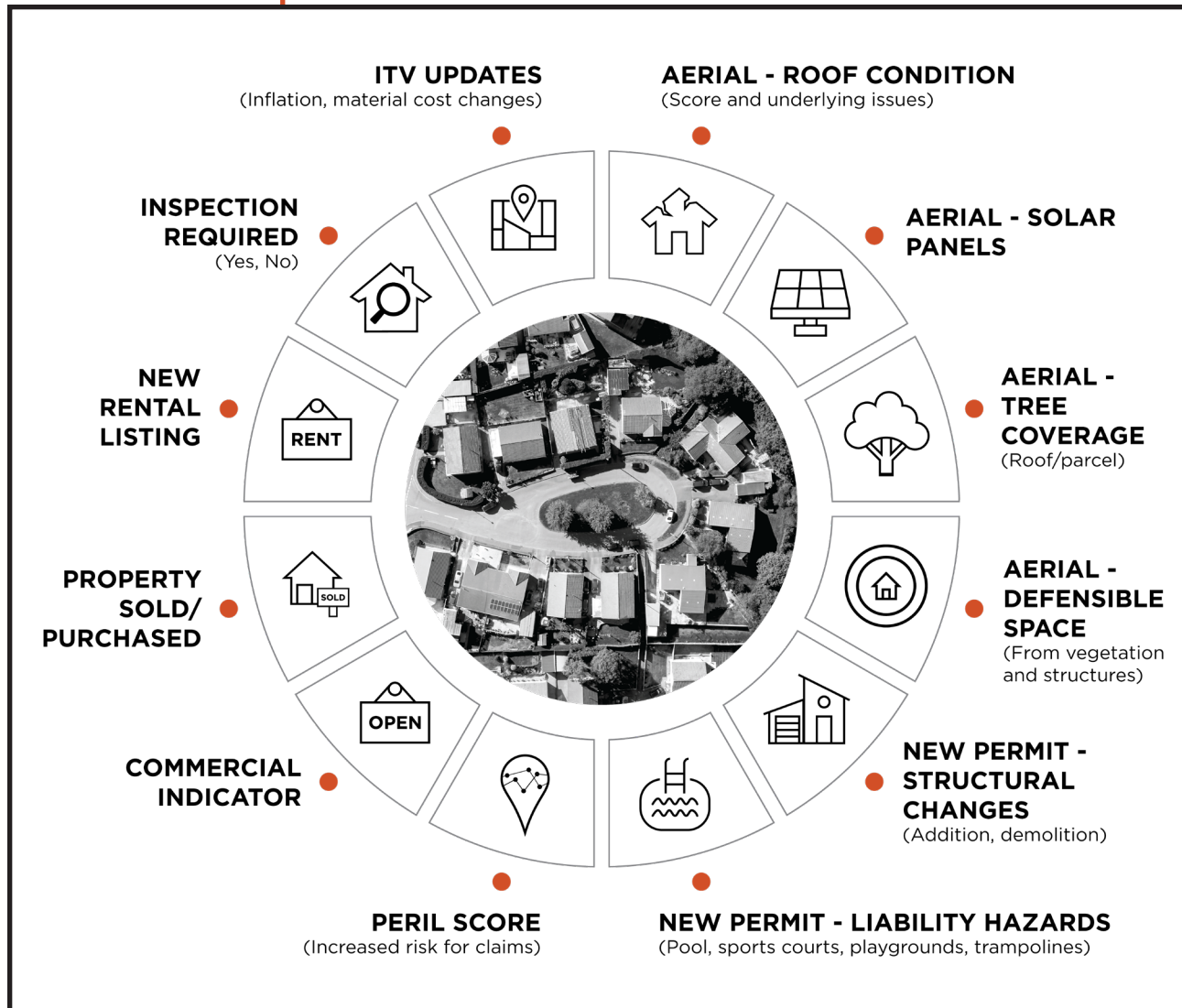
# INFLATION GUARD NOT GOOD ENOUGH

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.

Our insights reveal how price volatility has grown and persisted over a 10-year span of Canadian residential insurance rebuild costs per square foot. Using September 2013 as the base year, this graph shows the annual average percentage increase each year over the base year—a cumulative rise of 51.4% since 2013 across Canada, a 22.9% rise in five years and 13.8% in the past three years. Such market forces could have serious implications for Insurance to Value (ITV) in a portfolio built on unreliable valuations with outdated or incomplete data.

Applying inflation-indexed adjustments uniformly to ITV masks variations in inflation across Canada and even across regions. 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

## RESIDENTIAL ANALYSIS Q1 2023

Province	Number of Storeys	Living Area (sq.ft.) (not including basement)	Finished Basement	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's data is continuously validated through real-time dialogue. Generating more than 30,000 daily updates through iClarify™ business transactions, and through continuous research and studies using the largest repositories of Canadian inspection reports and actual total loss data, Opta delivers the most relevant, up-to-date, and accurate valuation data on the market.

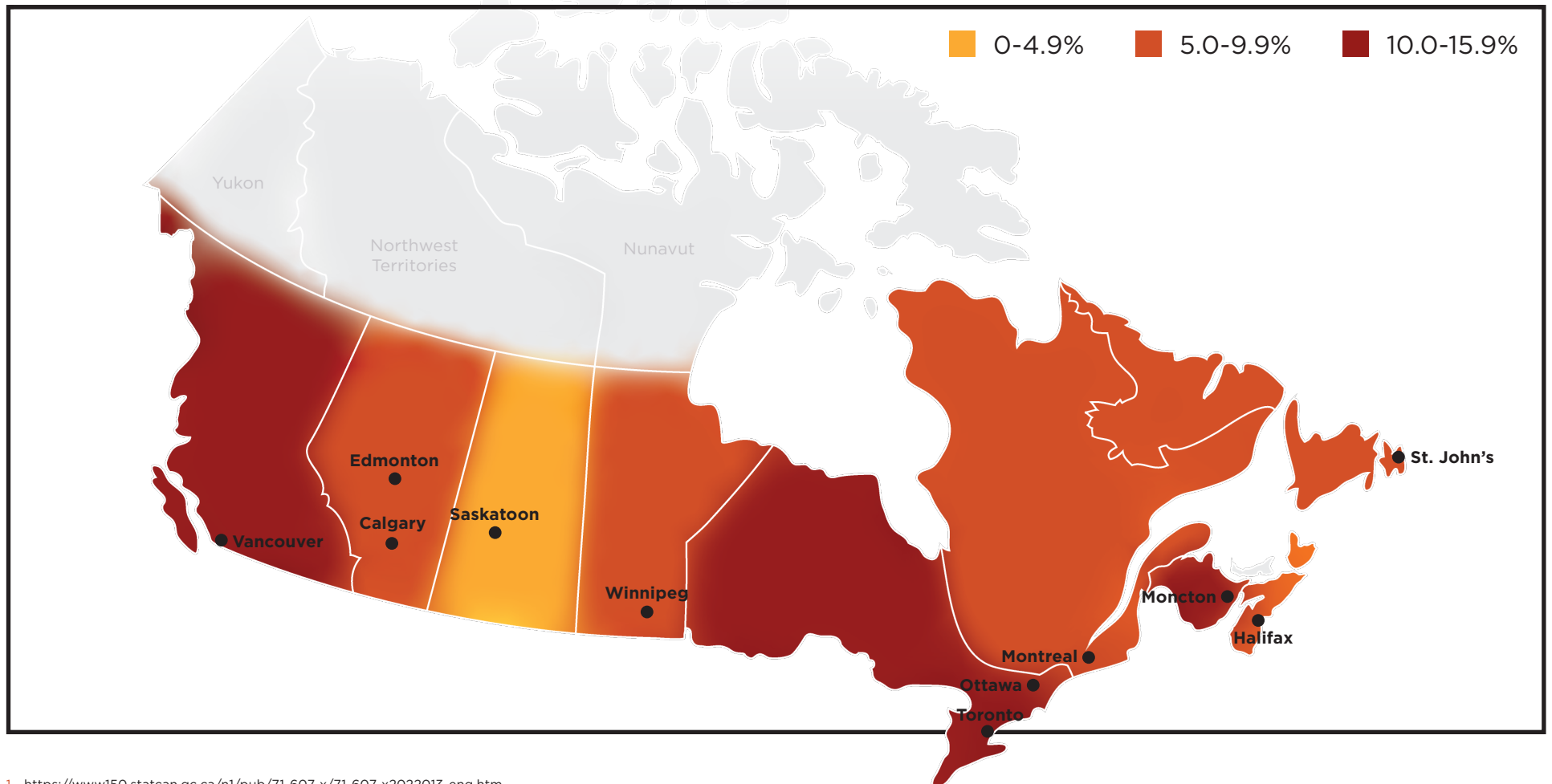
**The truest test of valuation accuracy is how it performs with an actual total loss**

Opta's iClarify™ valuations have remained strong and well within the industry benchmark of +/- 15%. A recent residential analysis was conducted across Canada using 20 losses. As shown, there is minimal variance between iClarify™ Valuations and Contractor Estimates.

# COMMERCIAL BUILDING CONSTRUCTION PRICE INDEX YOY CHANGES (Q2 2023 VS Q2 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.<sup>1</sup> 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.<sup>2</sup>

The highest change occurred in Moncton with a YOY increase of 15.6%, while Saskatoon had the lowest at 4.7%. The YOY change for all 11 CMA's is 9.2%.



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>

## COMMERCIAL ANALYSIS Q2 2023

Province	Building Occupancy	Number of Storey	Total Sq. Ft.	Contractor (CE) Estimate	iClarify (iC)-Valuation	iC/CE
NB	Garage-Auto Service/Repair Shop	1	2,914	\$759,253	\$761,100	0%
ON	Store-Mixed Retail w/Residential Units	3	5,530	\$1,738,100	\$1,704,200	-2%
NL	Warehouse-Mosc./Shop	1	5,757	\$751,729	\$751,900	0%
AB	Warehouse-Mosc./Shop	1	1,040	\$169,387	\$173,690	3%
AB	Senior Citizen Residence	1	4,000	\$1,662,203	\$1,578,900	-5%
BC	Lodging-Motel & Cocktail Lounge	1	13,120	\$3,857,967	\$3,789,300	-2%
SK	Lodging-Hotel-Full Service	3	16,852	\$4,693,499	\$4,715,400	0%
SK	Day Care Center (Original Design)	1	8,430	\$2,162,956	\$2,224,300	3%
SK	Day Care Center (New Design)	2	14,862	\$3,930,125	\$3,992,500	2%
MB	Warehouse-Storage Only	1	5,000	\$360,695	\$380,300	5%

**National Variance 0%**

In Q2, a commercial analysis was conducted across Canada using 10 losses and resulted in a National variance of 0% between iClarify™ Valuations and Contractor Estimates.

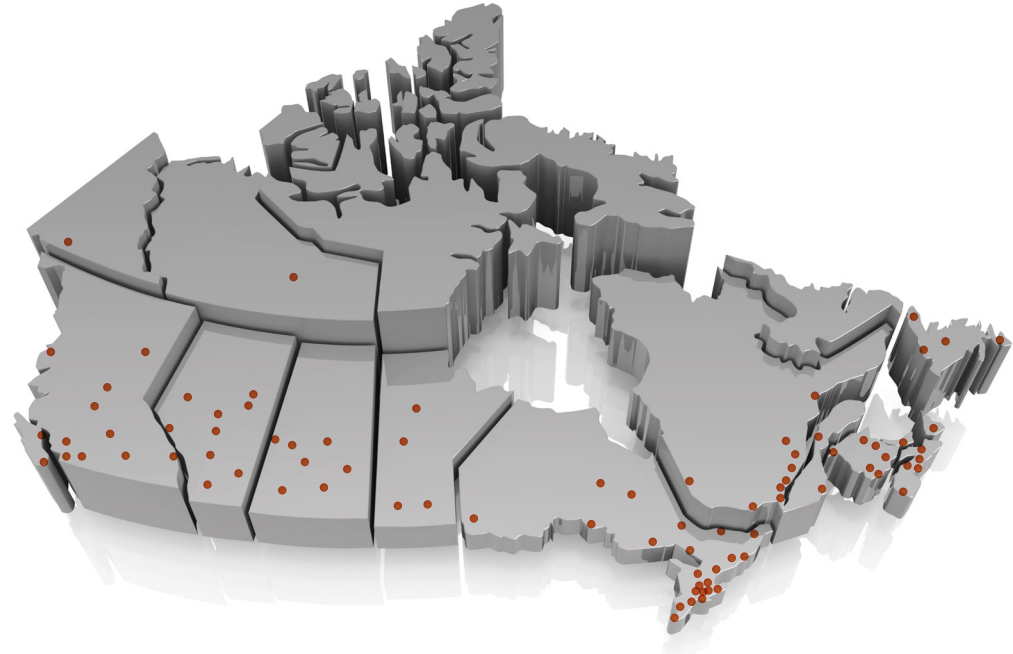


# ABOUT THIS REPORT

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  
Kapusksing  
Kenora  
Kingston  
Kitchener  
London  
Norfolk  
North Bay

Oshawa  
Ottawa  
Parry Sound  
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 business, 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](https://optaintel.ca)

For inquiries related to this report, contact Marta Fanok at [Marta.Fanok@verisk.com](mailto:Marta.Fanok@verisk.com)

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

**JOIN THE LIST**

