

RECONSTRUCTION COST UPDATES 2021

RESIDENTIAL | COMMERCIAL



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Q3

THE RENTAL CON

03 RECONSTRUCTION COSTS IN CANADA

04 SQUARE FOOT COSTS

06 COMPONENT COSTS

08 LUMBER PRICE ROLLER COASTER

09 THE RENO BOOM

12 COMMERCIAL RECONSTRUCTION COSTS

14 GENERAL OBSERVATIONS

15 COMMERCIAL TOTAL LOSS STUDY
Q3/2021

16 ABOUT THIS REPORT

17 WHAT POWERS THE ACCURACY
OF OPTA'S VALUATIONS?

18 FAQ'S

19 LEARN MORE AND STAY CONNECTED

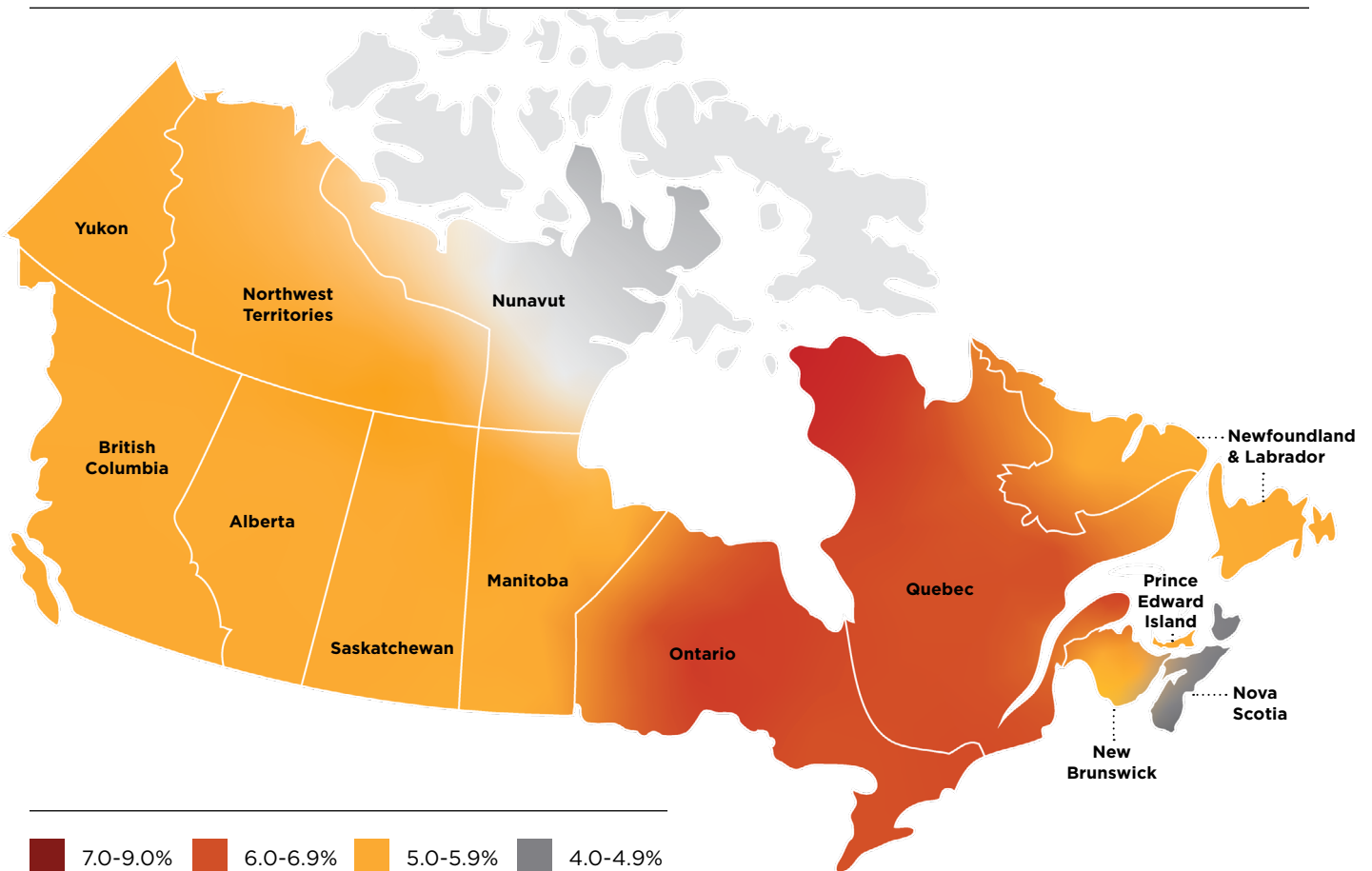
This report reflects the rebuild costs up to the third quarter of 2021 and provides a cost analysis based on 86 cities across Canada that have been identified as Opta’s “Centres of Influence.”

RECONSTRUCTION COSTS IN CANADA REMAIN HIGH AT 5.7% YOY BUT COST PRESSURES COOLING OFF

Lumber prices continue to affect residential rebuild costs in the insurance industry but to a lesser degree than in the first half of 2021. The expectation is that lumber prices should have declined precipitously by now and have dropped, but generally at the wholesale level only and not retail. Not unexpectedly, however—there is an even lower impact at the end-user level as both retailers and builders are in no hurry to pass on savings just yet and the demand for non-traditional alternatives to lumber will likely diminish.

On a positive note, projects are getting back on track as supplies pick up; however, mills may cut back slightly on supply in order to avoid a surplus while also considering the ongoing and expanding effect of the Delta variant in the months ahead. Although labour shortages continue to challenge the rebuild industry, wages are not going up across all trades. The only uptick is in roofing/siding, electrical, and HVAC, and this is driven by the demand for new housing. At this point, the only certainty is continuing uncertainty.

The National reconstruction cost increase is 5.7% YOY, from September 2020 to September 2021.



SQUARE FOOT COSTS IN CANADA

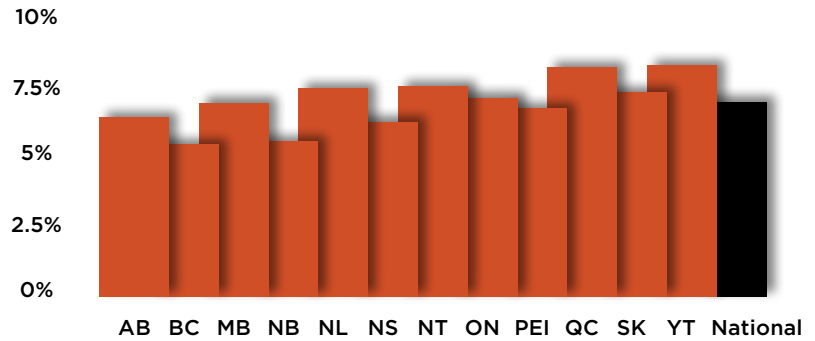
QC	6.2%
ON	6.0%
AB	5.8%
NL	5.8%
SK	5.8%
YT	5.8%
BC	5.7%
MB	5.7%
NT	5.6%
PEI	5.6%
NB	5.2%
NS	4.8%
National	5.7%

All provinces experienced cost increases YOY with Quebec and Ontario leading the way at 6.2% and 6%, respectively.

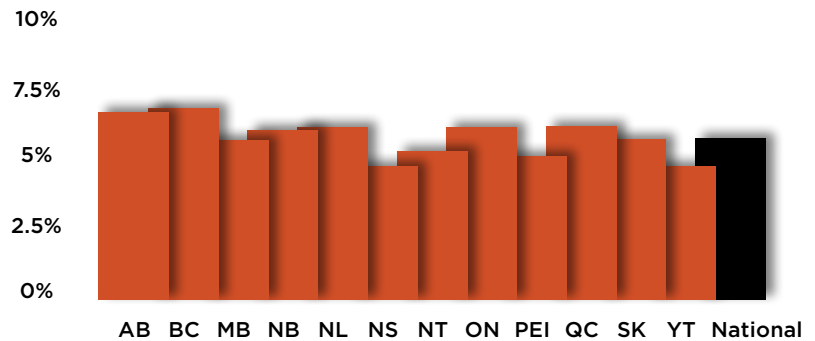
The highest increases were seen in the 1,000 SF model for a YOY average of 6.7%. Quebec returned above-average SF costs in the 1,000 SF and 2,000 SF models and led overall nationally across all three models. Ontario followed a very similar pattern as the eastern half of the country saw higher-than-usual square footage increases than the western regions.

1,000 SF

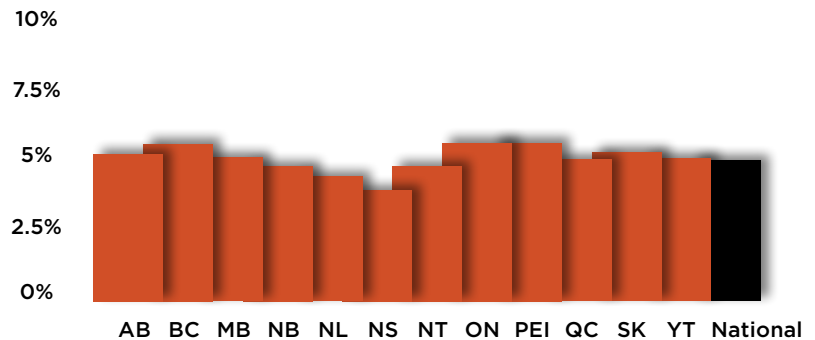
Highest increases seen in this model



2,000 SF



3,000 SF



COMPONENT COSTS

Component costs have risen with an overall increase of 5.5% YOY from Sep 2020 to Sep 2021. QC, SK, ON lead with 5.9%, 5.7%, and 5.7%, respectively. As they have for much of this summer, roofing and siding costs took the lead in AB (6% to 8% spread). However, market demand and supply issues pushed component prices up in the east, particularly in QC. Overall, component costs have increased at a slower rate than in the first half of 2021, and this suggests that supply is catching up with demand.

Overall YOY increase by province:

AB	BC	MB	NB	NL	NS	NT	ON	PEI	QC	SK	YT
5.7%	5.4%	5.5%	5.3%	5.4%	4.7%	5.6%	5.7%	5.1%	5.9%	5.7%	5.4%

Average YOY increase by component:

Basement	Kitchen	Bathroom	Roofing	Alum. Siding
5.3%	5.4%	5.2%	5.6%	5.7%

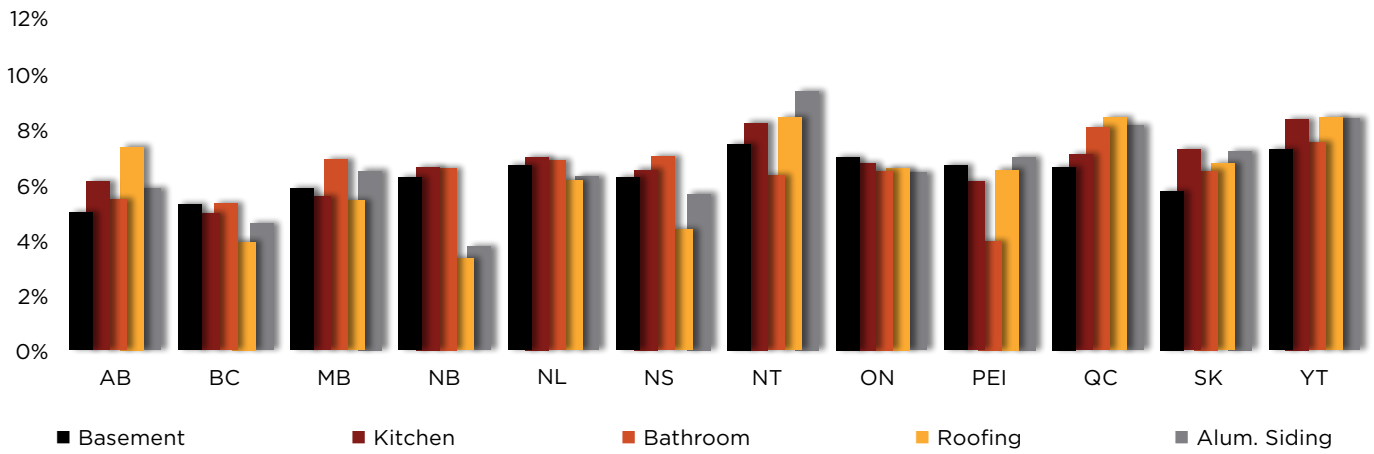
YOY Sept 2020 to Sept 2021 Component Cost Changes

	Basement	Kitchen	Bathroom	Roofing	Alum. Siding
AB	5.2%	4.7%	5.6%	7.6%	5.3%
BC	5.2%	5.1%	5.2%	5.9%	5.7%
MB	4.5%	5.8%	5.6%	5.6%	6.0%
NB	5.1%	5.5%	5.8%	4.8%	5.4%
NL	4.9%	5.6%	5.4%	5.3%	5.8%
NS	4.6%	5.0%	4.9%	4.5%	4.6%
NT	5.8%	5.5%	4.5%	6.0%	6.0%
ON	6.3%	4.8%	5.4%	5.9%	6.0%
PEI	5.3%	4.7%	3.9%	5.5%	6.1%
QC	5.7%	5.8%	5.9%	6.1%	6.1%
SK	5.7%	6.2%	5.6%	5.1%	6.1%
YT	5.5%	5.7%	5.2%	5.4%	5.4%

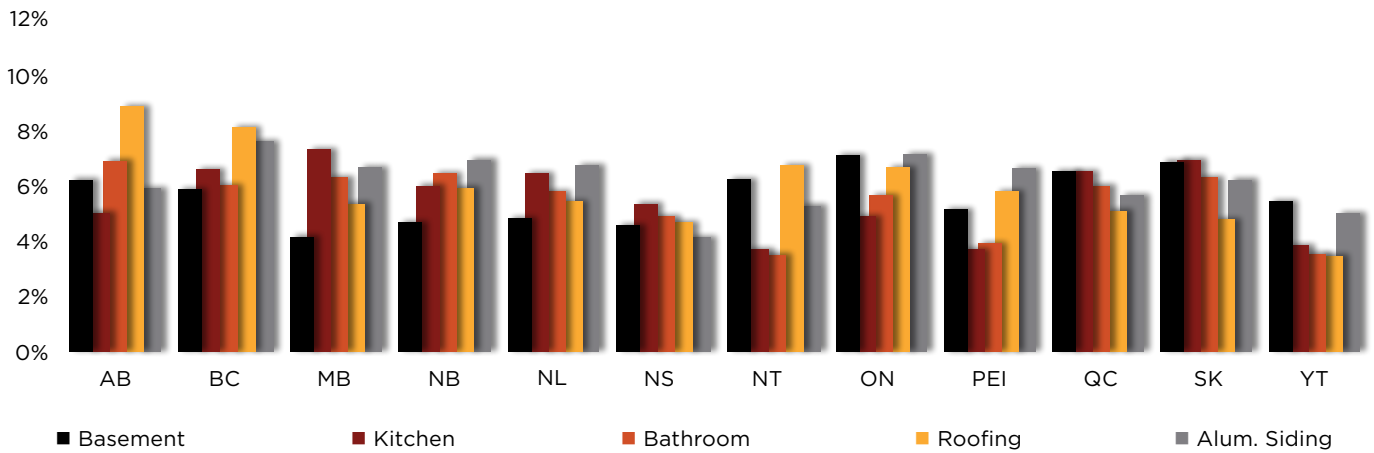
Eastern Canada (particularly Quebec) saw supply-related price volatility through mid-year, and we expect this to stabilize in the last quarter as demand drops heading into winter. Roofing costs in western Canada followed a familiar trajectory, with a major mid-year CAT event in Calgary triggering the usual demand-driven price hikes.

Below is the September 2020 to September 2021 YOY Component Cost breakdown by model unit size:

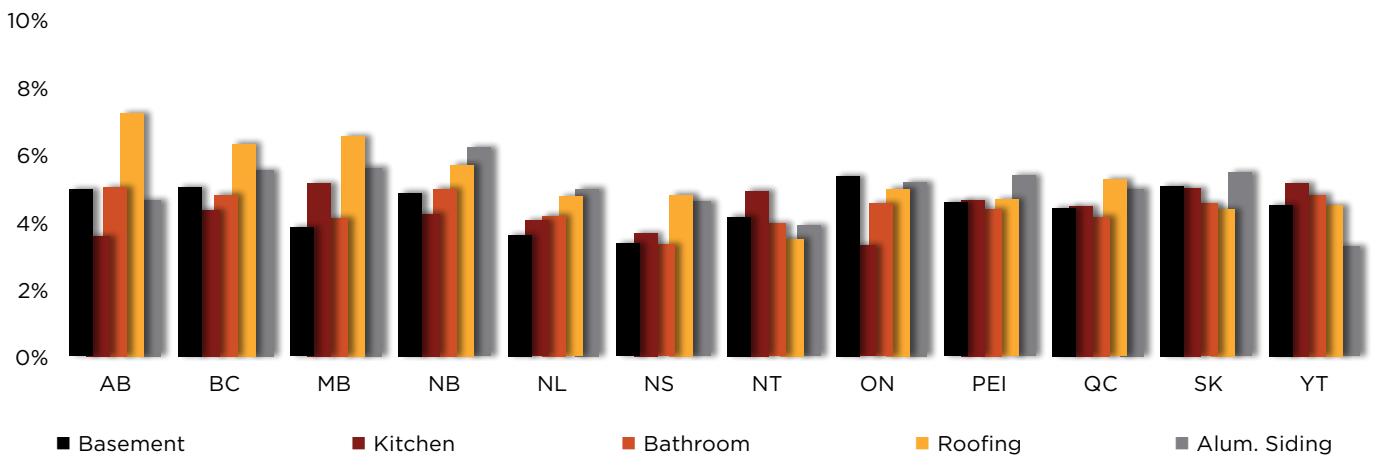
Component Costs - 1,000 sf



Component Costs - 2,000 sf



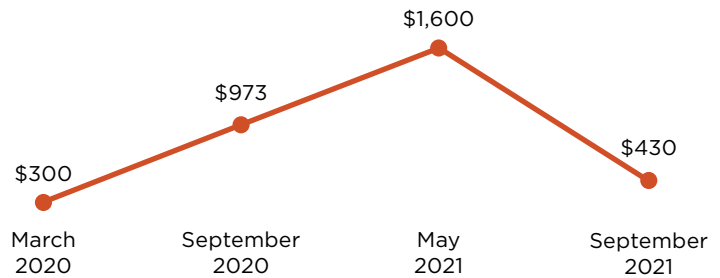
Component Costs - 3,000 sf





LUMBER PRICE ROLLER COASTER

The price for 1,000 feet of lumber went from \$300 in March 2020 to more than \$1,600 in May 2021 before falling again.¹



THE MARKET IS STILL OVER-SUPPLIED RELATIVE TO DEMAND

North American lumber companies may have added too much production, too quickly, as demand cools and prices for the construction material plunge. After more than quadrupling in 12 months to record highs, lumber has sunk about 70% since May. The crunch is particularly acute in Western Canada because of higher costs. Producers were swimming in cash earlier this year after rock-bottom borrowing rates during the pandemic led to a house-building boom, while locked-down home owners spent money on do-it-yourself renovations. But DIY purchases have dropped, and the lumber rally has priced out some buyers.²

¹ <https://www.cbc.ca/news/business/lumber-prices-1.6177016>

² <https://www.bloomberg.com/news/articles/2021-08-20/tumbling-lumber-prices-force-canadian-mill-to-curb-production>

CANADIAN RENOVATION BOOM SLOWING DOWN

The total value of building permits in Canada decreased 3.9% to \$9.9 billion month over month in July. All provinces except British Columbia and Newfoundland and Labrador posted lower values, with the majority of the national decline reported in Alberta (-23.4%). Residential permits fell 3.1% and 5.6% in the non-residential sector. Single-family permits fell 9.6% in July, with Ontario contributing the most to the decrease (-9.1%).

Construction intentions for multi-family units rose 2.7% in July. British Columbia posted an increase of 55.1%, which was driven by high-valued condo projects in the city of Surrey. In contrast, Ontario reversed strong growth in June (+67.6%) and fell 11.7% in July due to fewer high-valued condo permits reported for the census metropolitan areas (CMA) of Hamilton and Guelph.³

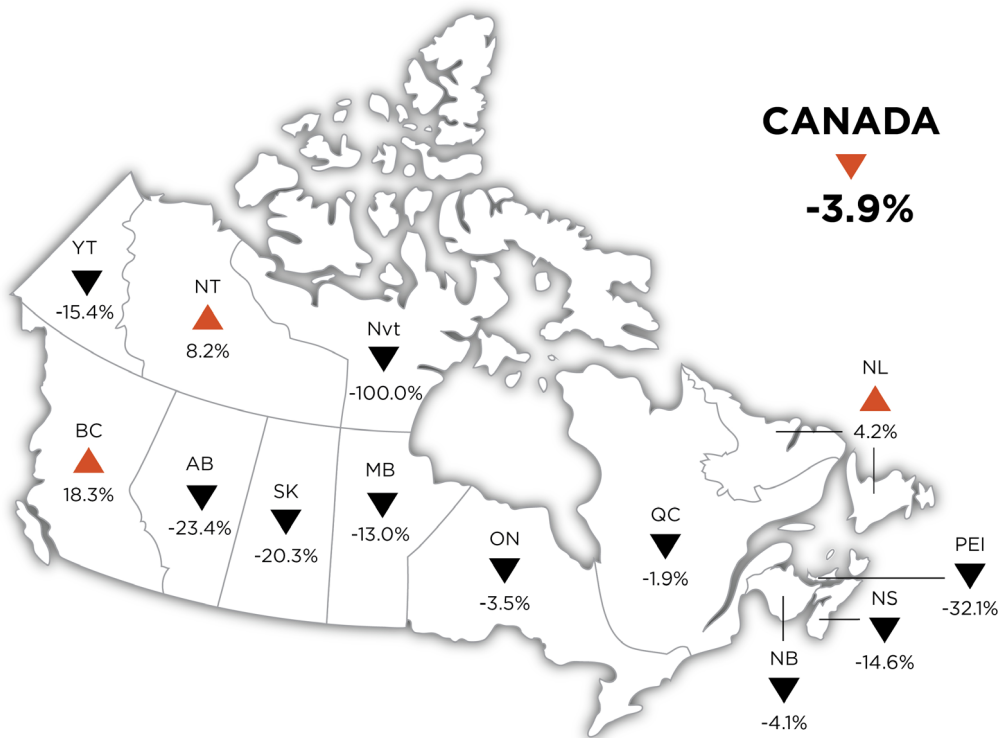


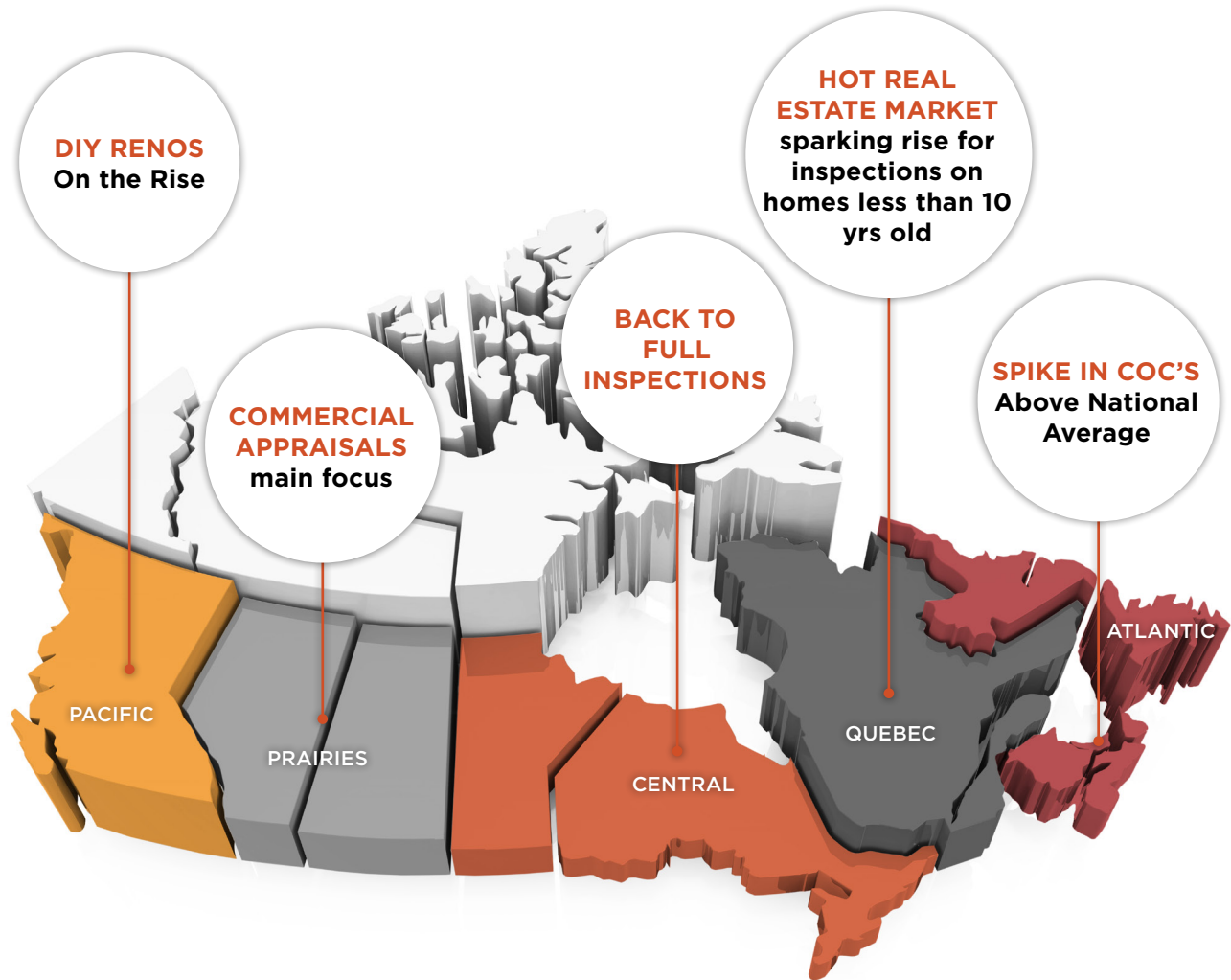
Figure 2: Building permits for residential and non-residential construction in Canada (seasonally adjusted)

Total value	Residential ▼ -3.1%		Non residential ▼ -5.6%		
	Single-family dwellings	Multi-family dwellings	Industrial	Commercial	Institutional
Month-to-month change, July					
	\$3,094 millions	\$3,887 millions	\$612 millions	\$1,597 millions	\$718 millions
	▼ \$328.4 (-9.6%)	▲ \$102.1 (2.7%)	▲ \$91.6 (17.6%)	▼ \$117.8 (-6.9%)	▼ \$148.6 (-17.1%)

Source: Table 34-10-0066-01 - Building permits, by the type of structure and type of work.

³ <https://www150.statcan.gc.ca/n1/daily-quotidien/210902/g-b001-eng.htm>

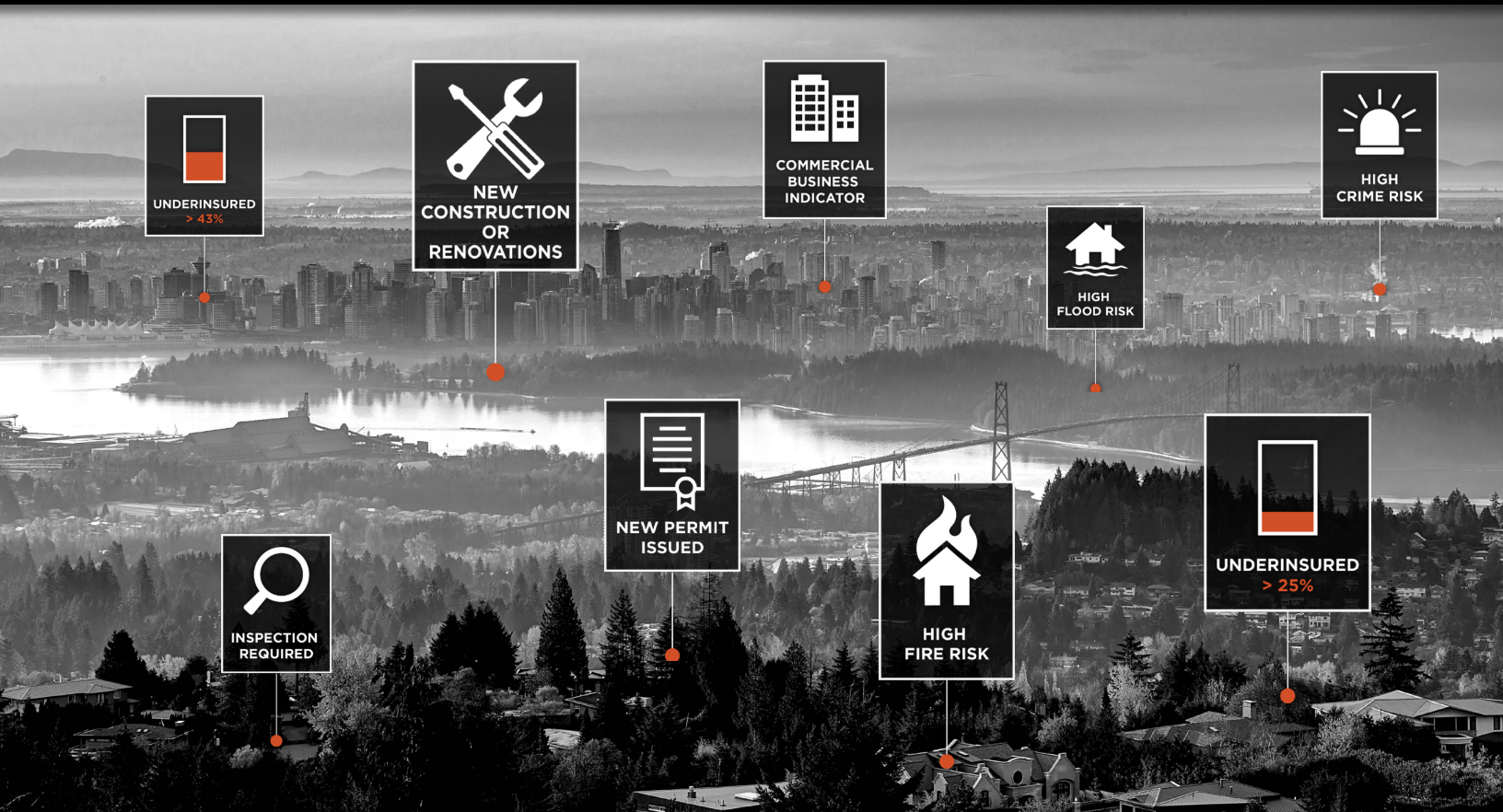
WHAT WE'RE SEEING



PRECISE  THE LATEST PULSE ON LOSS CONTROL TRENDS, *NATIONWIDE.*

PULSE

UNCOVERING EXPOSURES NATIONWIDE.



A LOT HAS CHANGED. The effects of the inflation on construction costs this year have undoubtedly made an impact on your portfolio. There's no better time than now to get a quick view of any changes, ITV gaps, or new exposures like flood, perils, or wildfire on your in-force policies or renewals.

HAVE AN INSPECTION BACKLOG? We can help you prioritize which properties to inspect by precisely identifying which homes are more prone to loss and need to be inspected first. Let us run your book, score it and inspect it.

CONNECT WITH US

COMMERCIAL RECONSTRUCTION COSTS **ONTARIO**

Commercial data has been collected and reviewed from 9 cities across Ontario which include the Greater Toronto Area, Ottawa, Windsor, Barrie, Hamilton, Kitchener, London, Peterborough, and Thunder Bay. Reconstruction data is based on the following commercial model with fire as the standard cause of loss (total loss). All material included is 100% new (no salvage items).

INDUSTRIAL BLOCK STRUCTURE FOR RETAIL/OFFICE USE

- Dimensions: 10,000 sq/ft (250x40)
- Building envelope only, no interior leasehold improvements, finishes, or contents
 - New development



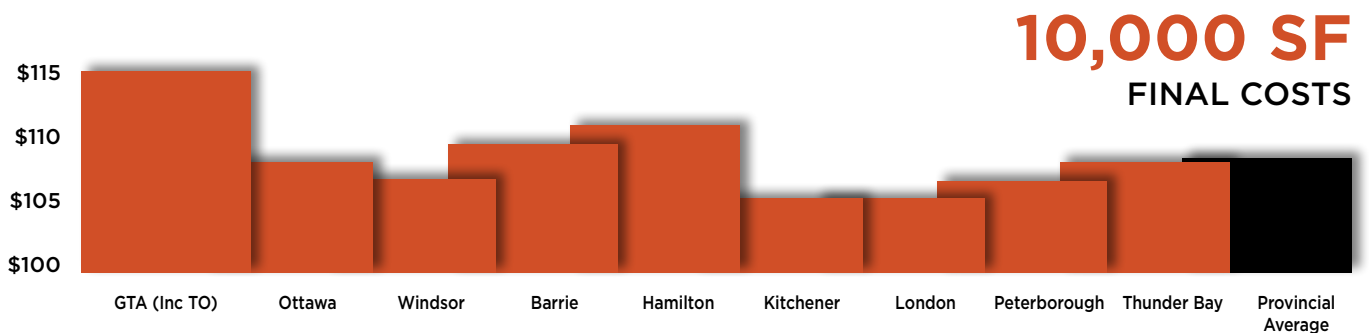
While there is good reason to believe that pandemic related factors will decline and disappear over the next 12 months, there is also evidence of variants in other countries that could erode much of the progress made so far in Canada; however, this remains unknown at this time. One thing that is certain is that lumber pricing has not directly affected commercial rebuild costs because very little is used in the construction of this type of commercial building (industrial structure for retail/office space). However, because higher lumber prices have created a greater demand for steel, there is a small, indirect demand-linked price increase.

LABOUR COSTS

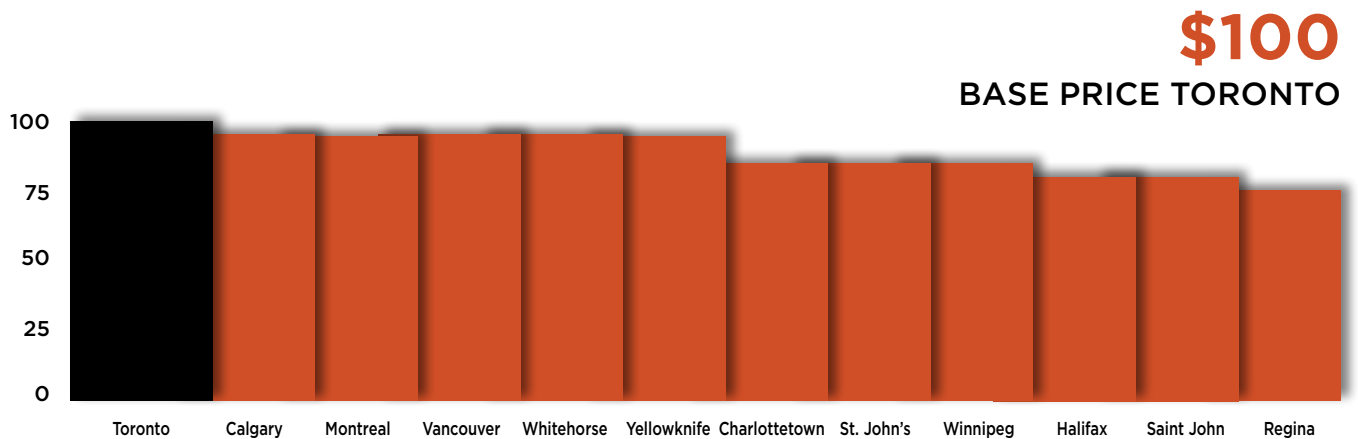
The main difference between locations is local labour costs. Within Ontario, material costs tend to be consistent as the cities we researched are not considered remote, and the overall cost of labour and material movement between these cities is relatively low. Skilled labour rates are going to be an issue in the future as construction backlog management and then growth (both commercial and residential) is inevitable and labour shortages have been developing for some time.

SQUARE FOOT COSTS

All costs include architectural fees & permits with debris removal only for structural items (no contents). Taxes excluded.

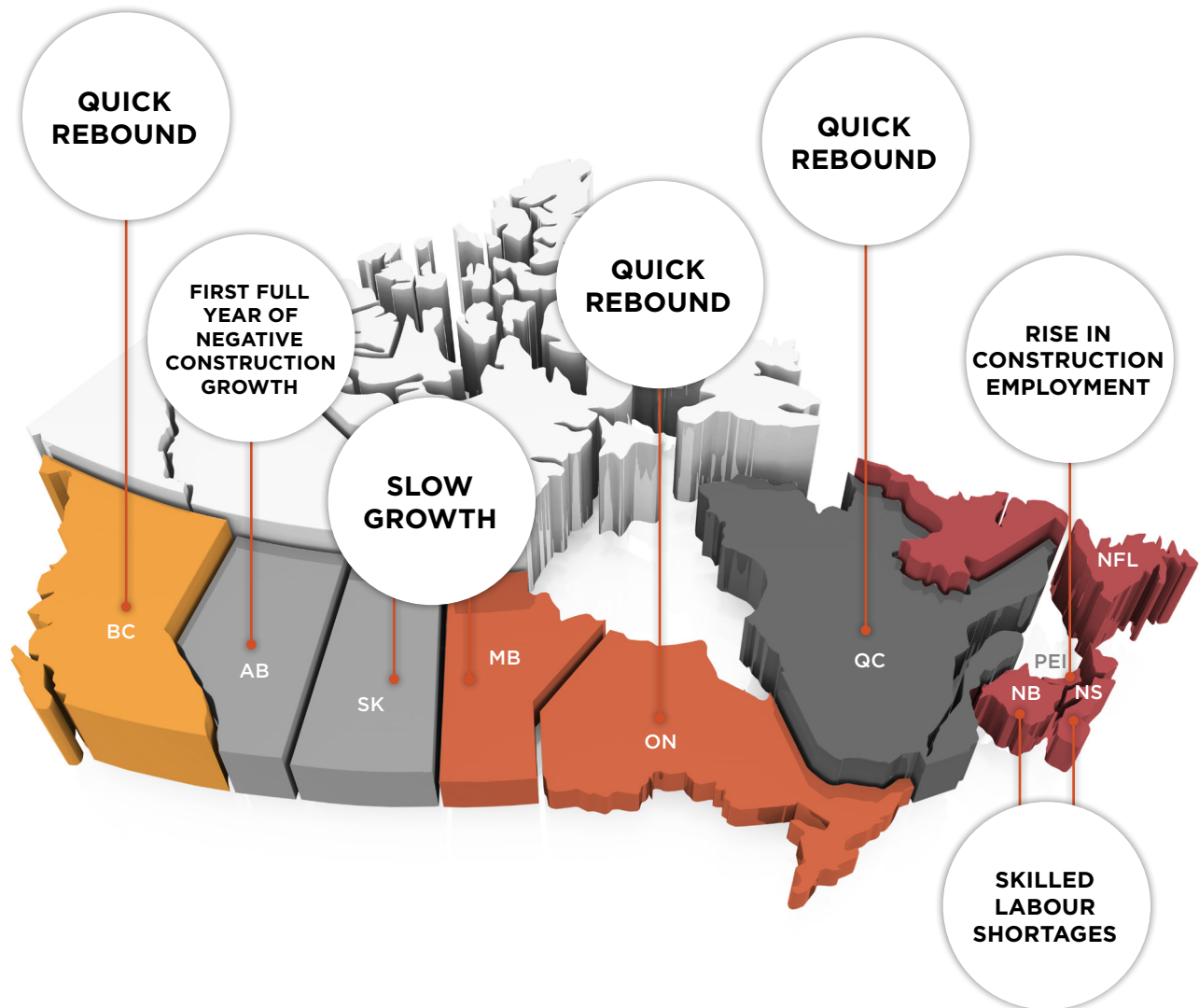


Looking beyond Ontario, we carried out a high-level investigation of costs in major cities in other provinces and used Toronto prices as a base.



GENERAL COMMERCIAL OBSERVATIONS

Alberta experienced its first full year of negative construction growth and is not expected to rebound as quickly as other provinces. British Columbia, Ontario and Quebec are expected to rebound quickly from the strength of private sector spending and government incentives. Manitoba and Saskatchewan have gone through over a year of decline in new projects and are expected to have slow growth in the next few years. While New Brunswick and Nova Scotia are likely to experience skilled labour shortages, PEI was the only province of the four maritime areas to experience a rise in construction employment and expected to continue into the last quarter.





COMMERCIAL TOTAL LOSS STUDY Q3/2021

A recent Commercial total loss study was conducted across Canada using 5 losses. As shown, there is minimal variance between Contractor Estimates and iClarify™ Valuations with an average variance of 3%. All results are well within the industry benchmark of +/-15%.

NATIONAL TOTAL LOSS ANALYSIS Q3/2021											OPTA INSIGHTS (1=low risk)	
City	Province	Building Occupancy	Year Built	Total Sq. Ft. Above Grade	Frame Type	Storey Height (ft)	Exterior Wall Type	Current Contractor (CE) Estimate	iClarify (iC) Valuation	iC/CE	Fire Peril Score	Total Casualty Score
Chilliwack	BC	Garage Repair	1970	3,055	Bearing Wall	12	Concrete Block	\$715,588	\$752,315	5%	99/100	90/100
Bella Bella	BC	Warehouse	1980	2,146	Steel	15	Metal Siding	\$448,100	\$467,231	4%	57/100	19/100
Sunnibook	AB	Factory	1979/1993	15,000	Steel	15	Metal Siding	\$3,365,383	\$3,378,820	0%	61/100	81/100
Saskatoon	SK	Warehouse, Office	1940/1950	10,640	Bearing Wall	13	Concrete Block	\$1,569,099	\$1,634,508	4%	49/100	69/100
Brandon	MB	Country Club	1979	13,191	Steel	12	Stucco	\$3,130,676	\$3,149,676	1%	89/100	80/100
									Average Variance	3%		

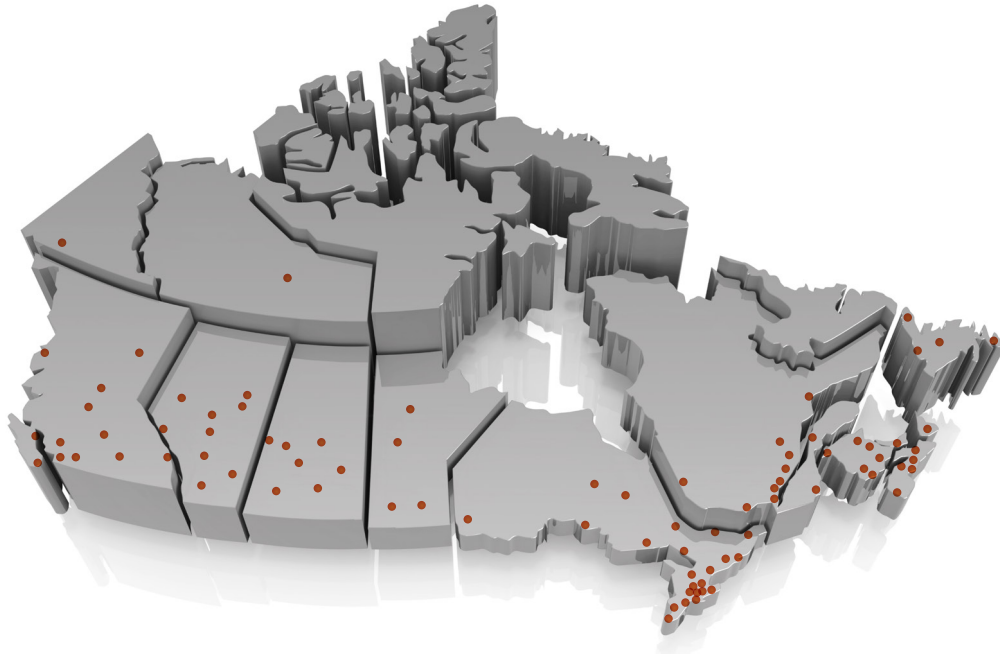
Each property loss considers unique factors. Published costs are specific to the conditions and building characteristics for each loss and are not intended to provide guidance on general costs for any region in Canada.

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 through Opta's affiliation with sister company, ClaimsPro.

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 over 7750 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	Fort McMurray	Manitoba	Oshawa	Quebec	Fredericton
Chilliwack	Grande Prairie	Brandon	Ottawa	Chicoutimi	Grand Falls
Cranbrook	Jasper	Grand Rapids	Parry Sound	Gatineau	Halifax
Fort St John	Lethbridge	Thompson	Pembroke	Montreal	Kentville
Kamloops	Medicine Hat	Winnipeg	Peterborough	Quebec City	Miramachi
Kelowna	Red Deer	Ontario	Sarnia	Rimouski	Moncton
Nanaimo	Wood Buffalo	Barrie	Sault St Marie	Rouyn Noranda	New Glasgow
Prince George	Saskatchewan	Guelph	St Catherines	Saint Hyacinthe	Saint John
Prince Rupert	Lloydminster	Hamilton	Sudbury	Sept-Iles	St. Anthony
Vancouver	North Battleford	Kapuskasing	Thunder Bay	Sherbrooke	St. John's
Victoria	Prince Albert	Kenora	Timmins	Sorel-Tracey	Sydney
Whistler	Regina	Kingston	Toronto	Trois Rivieres	Truro
Williams Lake	Saskatoon	Kitchener	Windsor	Atlantic	Yarmouth
Alberta	Swift Current	London	PEI	Bathurst	Northern Canada
Canmore	Yorkton	Norfolk	Charlottetown	Corner Brook	Yellowknife
Edmonton		North Bay		Edmunston	Whitehorse



WHAT POWERS THE ACCURACY OF OPTA'S VALUATIONS?

With information on over 15 million residential and 4.4 million business locations across Canada, 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, delivering the most relevant, up-to-date and accurate valuation data on the market.

30,000
DAILY CUSTOMER
UPDATES

150
NATIONAL FIELD
INSPECTORS

86
CENTRES OF
INFLUENCE

4x
QUARTERLY
NATIONAL TOTAL
LOSS ANALYSIS

FAQ'S

Q: HOW WILL OPTA BE HANDLING THE INCREASES OF BUILDING MATERIAL COSTS?

A: As the Industry leader in property risk data and valuations, Opta continuously monitors the fluctuating material costs and makes quarterly adjustments to ensure you get the most accurate and up-to-date valuations on the market. Our comprehensive research process includes real-time feedback from local reconstruction cost data gathered from Opta's 86 Centres of Influence and through extensive studies using the largest repositories of actual Canadian total loss data. **Adjustments will be made to Opta's iClarify™ valuation outputs in October 2021 nationally to reflect the latest changes to material costs.**

Q: DO YOU SEE THIS AS A LONG OR SHORT TERM TREND?

A: There remains a lot of uncertainty at the moment and Opta will continue to monitor and provide quarterly updates based on our national research. Sign up to receive our regular Reconstruction Cost Analysis Report [here](#).

Q: HOW DOES OPTA FACTOR THE INCREASE ON INSURANCE TO VALUE WHEN HOME RENOVATIONS HAVE OCCURRED?

A: Material updates (new flooring, upgraded fixtures, replacing a roof) do not generally have a large impact on the total replacement cost of a house. New additions, upgraded roofing, or finishing a basement are larger projects that can be captured in iClarify™ and will impact the replacement cost directly. In situations where there are specific concerns about high quality or unique features in a home, Opta always recommends that an inspection be completed so that a full replacement cost can be calculated.

Q: WHAT ADVICE CAN BE GIVEN TO CONSUMERS?

A: Consumers want to be protected. As such, for consumers who have undergone renovations, it is recommended that an inspection is ordered to capture any changes, new exposures, or the impact to their replacement cost.

Q: IS THERE ANY DIFFERENCE BETWEEN HOW COMMERCIAL OCCUPANCY CONSTRUCTION IS BEING AFFECTED VS RESIDENTIAL CONSTRUCTION?

A: The impact on commercial construction has differed from the residential experience during the pandemic. Overall commercial construction has slowed down during this time period, as seen by the drop in permits being requested. Timelines for commercial projects are fairly long, so it may be a while before there's a good understanding of impact. Uncertainty around the lasting impact of the pandemic on remote/home vs centralized/office work could definitely drive commercial vacancy and condo vacancy rates in metropolitan areas. Its too early to speculate what will happen, but the drivers are entirely different from the residential industry.

Q: ICLARIFY VALUES DO NOT SEEM STRONG IN SOME REGIONS. WHAT IS OPTA DOING TO IMPROVE THESE VALUES?

A: Opta reviews valuations on a case by case basis, and if we find a particular area where further review is necessary, we leverage our team of Property Validators to confirm construction features in areas via remote imagery and further investigation. We also leverage our network of local contractors from Opta's Centres of Influence to provide additional insight on costs and guidance to refine replacement cost values.

Q: COVID-19 CONTINUES TO AFFECT THE INDUSTRY, HOW IS OPTA RESPONDING?

A: Opta remains committed to mitigating any business disruption by responding quickly to your changing needs with innovative solutions that ensure the safety of all parties involved. We've enhanced our services to provide you with a full suite of inspection options to meet your changing business needs.

LEARN MORE, EARN MORE!

Register for one of Opta's Nationally Accredited education webinars designed to further your industry knowledge about Valuations. Sessions are complimentary and open to everyone in the P&C Community.



ENROL

National | Accredited 1.5 CE

Bringing Clarity to iClarify™

Gain the knowledge, education, and experience necessary to identify and classify homes using online street-level imagery delivered through Opta's iClarify™ Valuation desktop platform, including topics like common home construction features from the foundation type to roof type, and how to measure the external square footage of tri-levels, bi-levels, and various other types of homes.



ENROL

National | Accredited 2.0 CE

Opta Precise Services Evaluation Systems

Gain a better understanding of residential construction costs and its relationship to insurance to value with a detailed view into valuation issues. Topics covered include market value, construction cost, replacement cost, guaranteed replacement cost and much more!

YOUR LEADING SOURCE OF VALUATIONS, NATIONWIDE.

Sign up to receive Opta's quarterly Reconstruction Cost Analysis Report published in January, May, and September.

SIGN UP

WANT A DEEPER DIVE INTO THE TOPICS COVERED IN THIS REPORT? INDIVIDUAL OR GROUP WEBINARS AVAILABLE.

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