

RECONSTRUCTION COST UPDATES 2022

CANADA



Q2

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THE FURNITURE CON

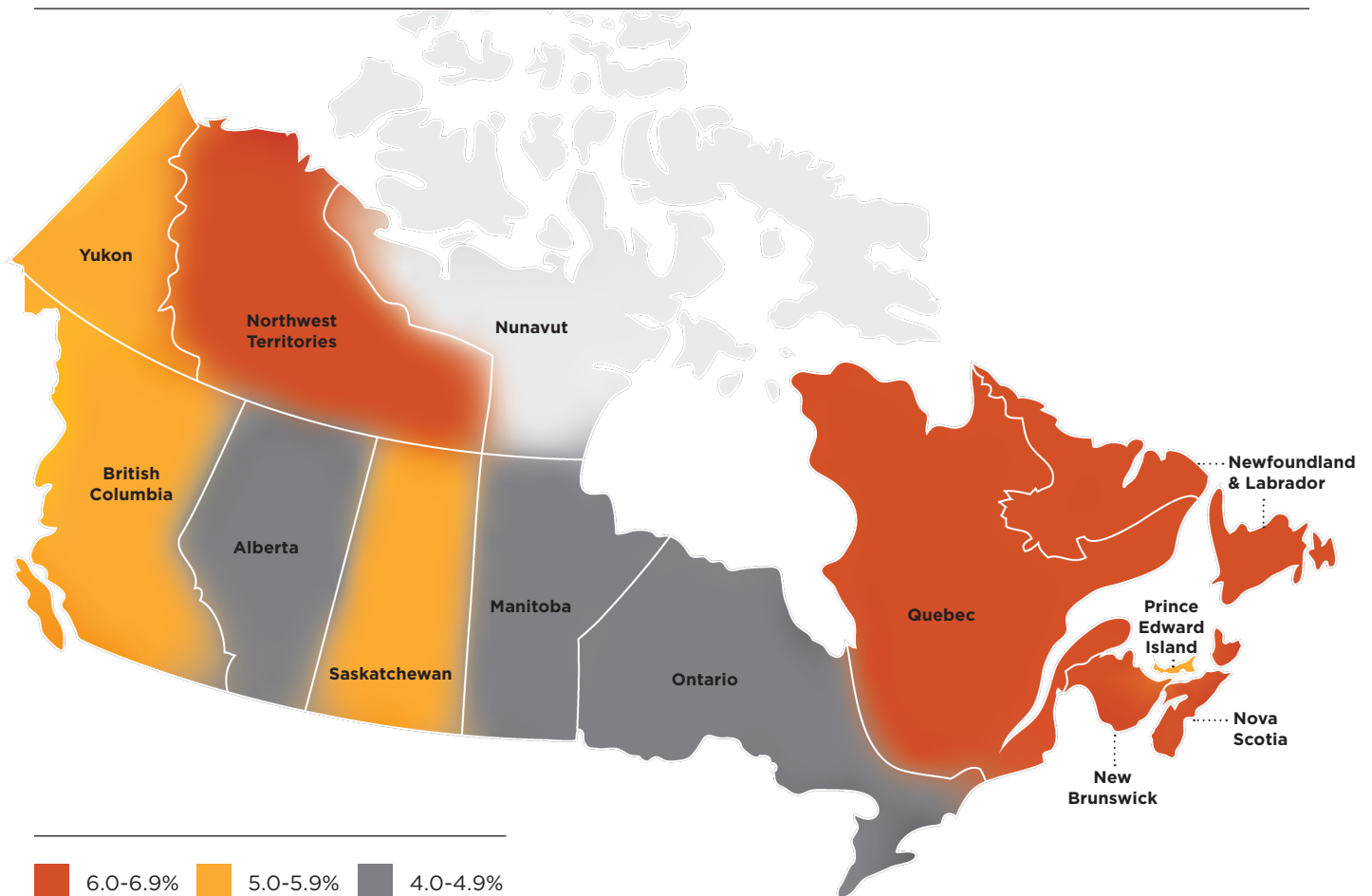
03	RECONSTRUCTION COSTS
04	SQUARE FOOT COSTS
05	CONSUMER PRICE INDEX
06	VEHICLE COSTS
07	COMPONENT COSTS
10	FAQ'S
11	CANADIAN PERMITS
12	CHANGE DETECTION
13	WHAT WE'RE SEEING
14	REAL ESTATE
15	RENTAL MARKET
16	NATIONAL TOTAL LOSS STUDY
17	LEARN MORE
18	ABOUT THIS REPORT
19	SIGN UP

This report reflects the rebuild costs up to the first quarter of 2022 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 5.6% YOY

Approaching mid-2022, three factors are creating challenges for insurance rebuilds: gas prices, supply chain delays, and inflation. Labour shortages are less of an issue in the rebuild industry compared to insurance restoration because most of the volatility is found in the front-end mitigation and technician labour categories. Roofing and siding are showing signs of increases as oil prices escalate. Some of these factors are related to the pace and direction of post-COVID financial recovery and others are affected by global political developments. Summer is also the period of greatest weather volatility so the relative stability of this quarter will likely be disrupted in the near future.

The National reconstruction cost remains high at 5.6% YOY, from May 2021 to May 2022.



SQUARE FOOT COSTS IN CANADA

NL	6.5%
NS	6.4%
NT	6.1%
QC	6.0%
NB	6.0%
PEI	5.9%
SK	5.2%
YT	5.2%
BC	5.0%
ON	4.9%
AB	4.9%
MB	4.6%
National	5.6%

New Brunswick achieved a YOY rate increase of 13%, Newfoundland's rate of increase was 18%, and Nova Scotia rose by 33%. Almost all the volatility is related to shortages of various materials and delays in deliveries that, in some cases, have resulted in materials being upgraded in order to complete projects.

The November 2021 BC flood losses are still being assessed and little rebuild work has been completed. At this time, we do not see this event having a significant effect on pricing.



THE CANADIAN CONSUMER PRICE INDEX (CPI) INCREASED 6.8% IN APRIL. THIS WAS THE LARGEST INCREASE SINCE JANUARY 1991¹

LUMBER

- The expectation is that prices will eventually drop by about 25% this year but that will still leave average prices approximately 30% higher than January 2021
- Supply issues caused by labour shortages at mills and the 2021 BC floods vs speculative demand have created a whipsaw effect that will continue in 2022. Current supplies are insufficient to meet the new housing season starts and there's already a pricing uptick.
- Overall, lumber pricing factors to watch the second half of 2022 are production, capacity management, and transportation costs

PANDEMIC

- This is no longer a direct pricing factor; however, manufacturing and supply-chain issues arising from COVID lockdown measures in China are still a threat to materials availability

SUPPLY CHAIN ISSUES

- While delays are slowly resolving, this is still a factor in project completion. Delays of two to three months are occurring—often in the delivery of various finishes and windows
- The most noticeable effect in YOY price increases continues to occur in the east/Maritimes (See Component Costs)

INFLATION/INTEREST RATES

- The underlying issue for insurance rebuild costs is the threat of labour issues (wages are not keeping up with inflation) and the difficulty in properly pricing projects when monthly index uplifts are at historical highs.

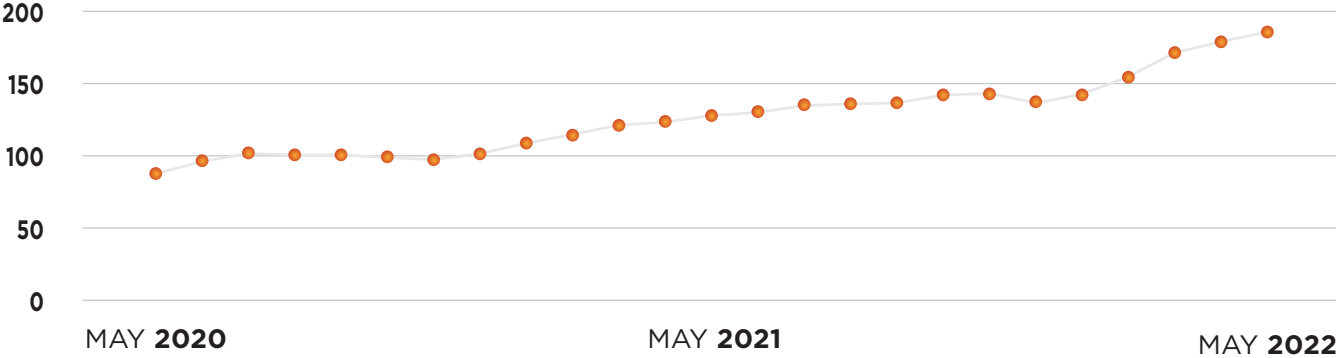
¹https://www.business-standard.com/article/international/canada-s-inflation-hits-6-8-in-april-highest-since-january-1991-122051900099_1.html

VEHICLE COSTS

Fleet management is under considerable strain with vehicle replacement being delayed by months (global supply chain and chip manufacturing backlogs) and, as a result, there are significant new car price increases. This is partially offset by record used car resale values.

Gas prices are at historic highs and predicted to rise further during the summer driving season. We will track this factor and report what effect it has on overall costing. Historically, total fleet costs have represented 5% to 7% of a contractor's operating expenses but this will almost certainly increase and will, therefore, affect rebuild costs.

CANADA - AVG REGULAR CENTS PER LITRE



COMPONENT COSTS

Component costs have risen with an overall increase of 3.9% YOY from May 2021 to May 2022. Increases are higher in the West and this is primarily due to supply chain issues and resultant materials shortages.

The biggest YOY component cost increases occurred in Quebec and the Eastern provinces. This is similar to our findings in the Q1 report. Supply chain issues and the resultant cost pressures are having a greater impact on areas of lower population density and more remote regions. Quebec is a good example of this where cost centres outside Montreal and Quebec City are fueling the overall provincial increase. The same pressures are pushing up component prices in Newfoundland, Yukon Territories and Northwest Territories as well.

Roofing and siding costs show seasonal drops in the West and are likely to see increases as we get into the storm season along with the associated pressure on exterior building materials supplies. All three models recorded close to 4% increases overall.

OVERALL YOY INCREASE BY PROVINCE

AB	BC	MB	NB	NL	NS	NT	ON	PEI	QC	SK	YT	All
3.6%	3.9%	3.4%	4.0%	4.4%	3.8%	4.0%	3.6%	4.1%	4.0%	3.8%	4.2%	3.9%

YOY INCREASE BY COMPONENT

May 2022 vs May 2021	Basement	Kitchen	Bathroom	Roofing	Alum. Siding	All
	4.1%	3.5%	4.4%	4.0%	3.6%	3.9%

YOY INCREASE BY UNIT MODEL

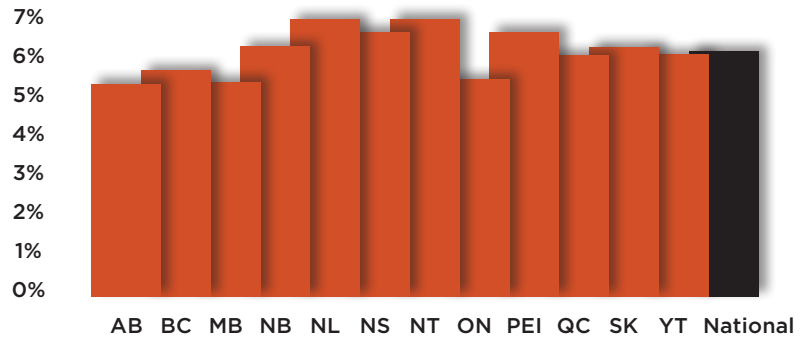
1000SF	2000SF	3000SF
3.9%	3.9%	3.9%

YOY MAY 2022 TO MAY 2021 COMPONENT COST CHANGES

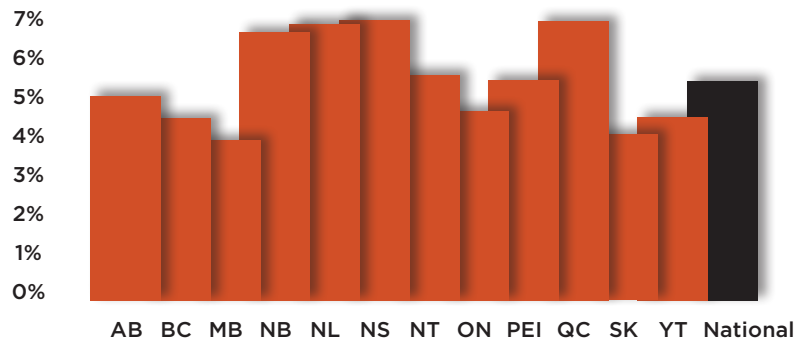
	Basement	Kitchen	Bathroom	Roofing	Alum. Siding
AB	3.6%	3.4%	4.6%	4.1%	2.2%
BC	4.3%	3.7%	4.4%	3.8%	3.4%
MB	4.0%	2.9%	4.8%	2.8%	2.6%
NB	4.1%	3.0%	4.6%	4.4%	3.8%
NL	4.8%	4.2%	5.2%	4.0%	4.0%
NS	3.3%	3.6%	4.3%	3.7%	4.1%
NT	4.4%	3.6%	4.1%	4.1%	3.7%
ON	3.9%	3.1%	3.5%	4.0%	3.7%
PEI	3.6%	3.6%	4.8%	4.3%	4.3%
QC	4.7%	3.5%	4.1%	4.2%	3.6%
SK	4.4%	3.0%	3.8%	4.6%	3.4%
YT	4.5%	3.8%	4.1%	4.5%	4.2%

Below are the May 2022 vs May 2021 YOY Component Cost breakdowns by model unit size.

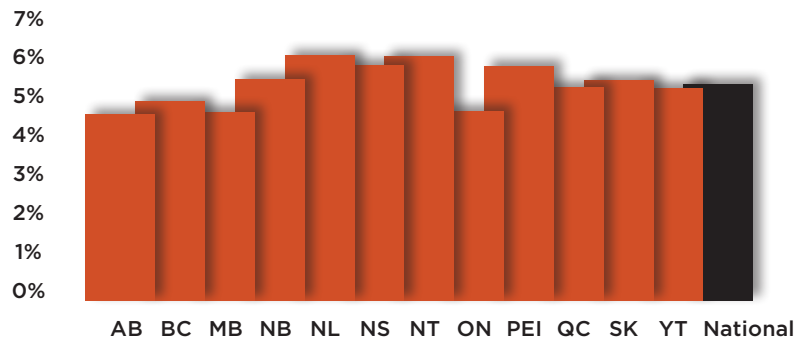
1,000 SF



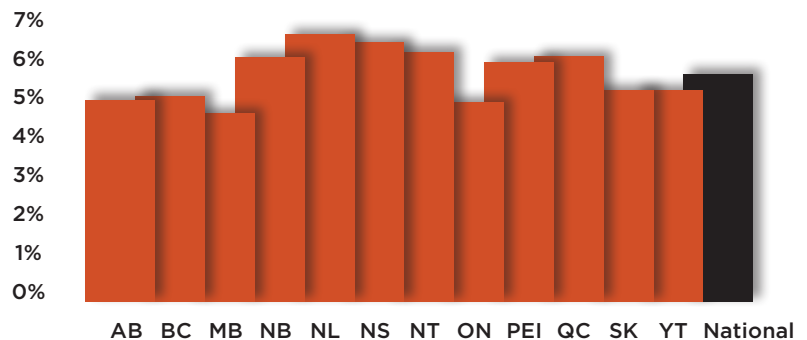
2,000 SF

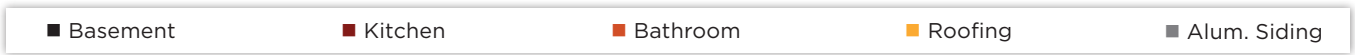


3,000 SF

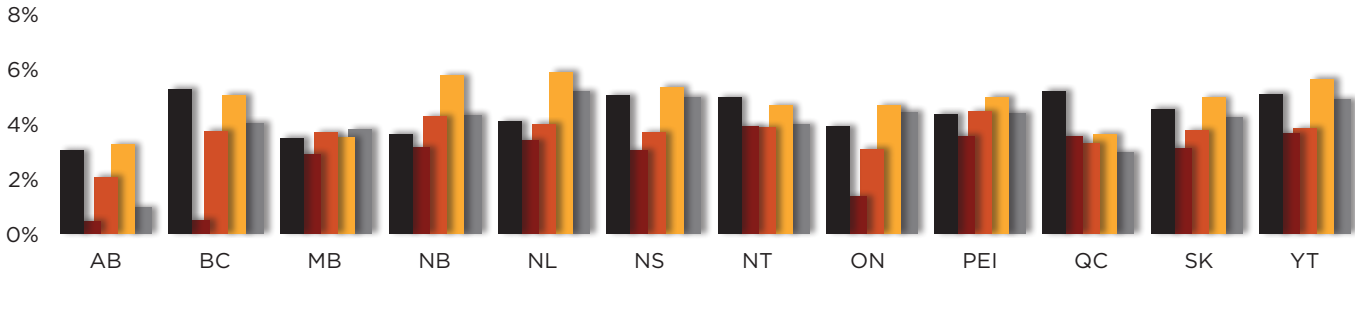


ALL

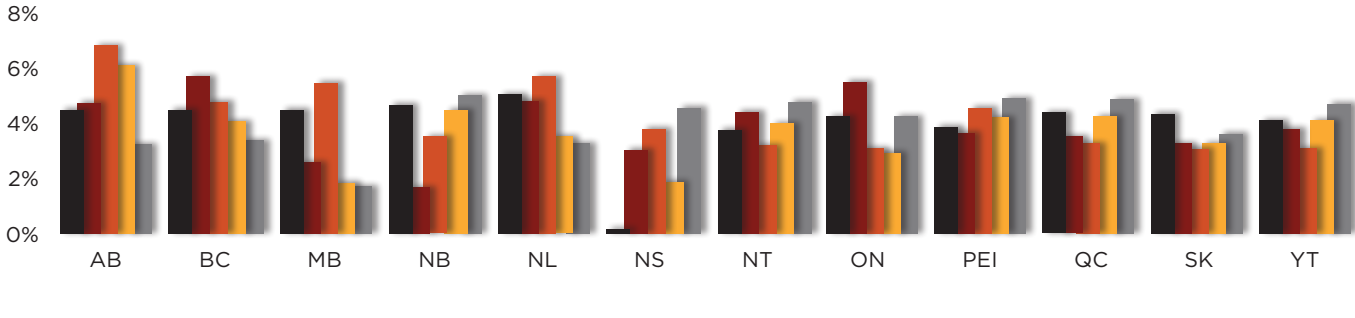




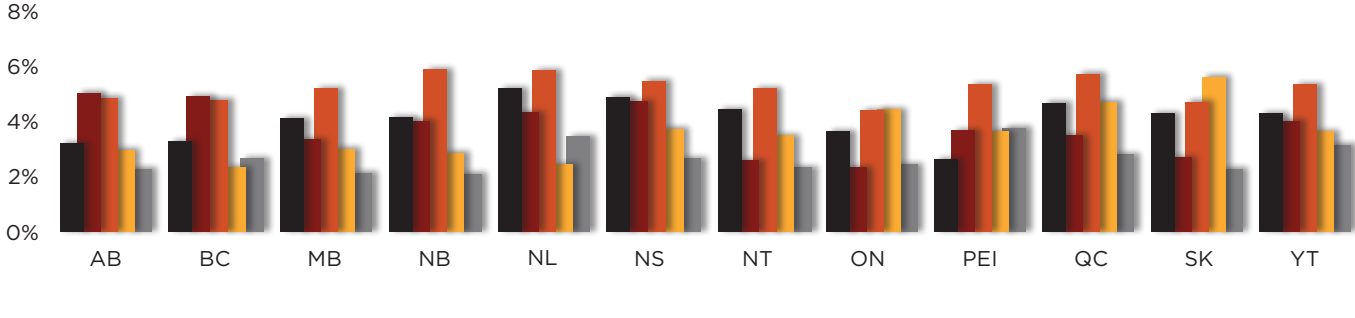
Component Costs - 1,000 SF



Component Costs - 2,000 SF



Component Costs - 3,000 SF



We have noted some unusual increases in bathroom costs notably in the 3000SF model. This is generally due to supply shortages in the lower grade fittings and, as a result, there have been quality upgrades in the larger models.

TOP 3 FAQ's

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

A: 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. Based on the analysis presented in this report, adjustments have been made to Opta's iClarify™ valuation outputs in May 2022 nationally to reflect the latest changes to material costs.

Q. HOW DOES OPTA ACCOUNT FOR REGIONAL DIFFERENCES IN RECONSTRUCTION MARKETS?

A: Opta leverages a network of local contractors from 86 centres of influence across the country to conduct detailed research on replacement costs. This research provides insights on regional differences in the reconstruction markets. These studies are conducted on a regular basis and are used to refine the replacement cost valuations. Opta reviews individual valuations on an ongoing basis and if we find a particular area or region where further review is necessary, we will leverage our team of Property Validators to review properties in detail. Our Validation experts use online imagery and measurement tools to confirm the construction features and update valuations to ensure accuracy

Q: HOW DO YOU ADJUST FOR HOME RENOVATIONS?

A: Material updates such as new flooring or upgraded fixtures 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 will impact the replacement cost directly. A renovation project valued at \$20,000 does not necessarily equate to an increase of \$20,000 to the insurable replacement cost of a home or its market value. In situations where there are specific concerns about high quality or unique features in a home, it is always recommended that an inspection be completed so that a full replacement cost can be calculated.

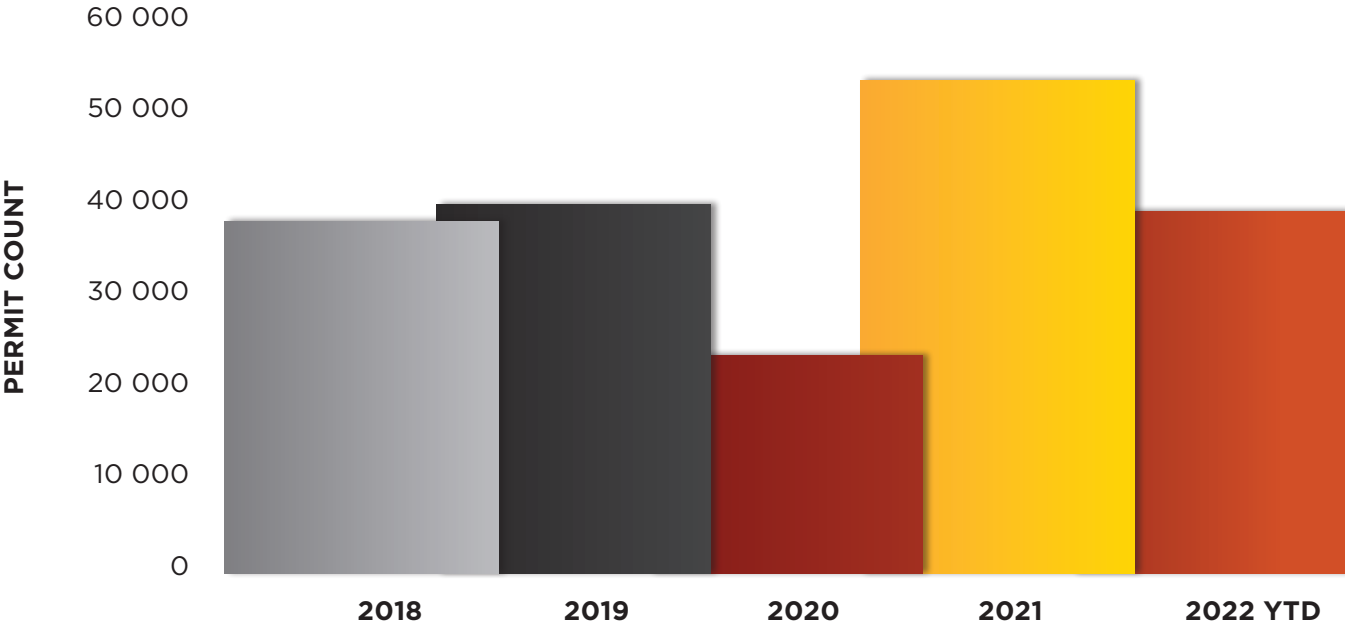


CANADIAN PERMITS ARE THROUGH THE ROOF

Residential permits in March increased 4.7% to \$7.9 billion nationally. Construction intentions for single family homes were up 3.3%, reaching the highest value since March 2021, with Ontario registering the largest gain (+12.0%).² The total value of building permits in the first quarter of 2022 increased 5.3% from the fourth quarter of 2021, to \$34.9 billion. The non-residential sector jumped 18.8% in the first quarter of 2022 to a record high of \$12.5 billion.³

FIRST QUARTER OF 2022 REACHES RECORD HIGH

In line with the renovation boom witnessed over the last 24 months, 2022 is shaping up for intense growth as the first quarter of 2022 has already reached a record high permit count for residential and non-residential in Canada.



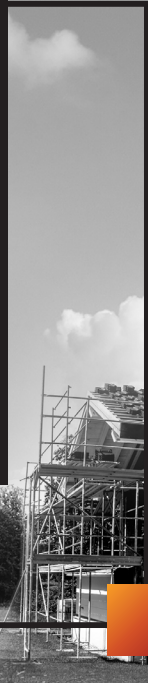
² <https://www150.statcan.gc.ca/n1/daily-quotidien/220509/dq220509a-eng.htm>

³ <https://www150.statcan.gc.ca/n1/daily-quotidien/220509/dq220509a-eng.htm>

CHANGE

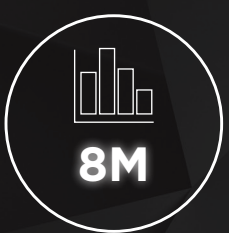
Detection

As homeowners complete more renovations than ever before and life events add complexity to the mix, how are you capturing changes in your book of business?



IDENTIFY CHANGES PRIOR TO RENEWAL WITH PERMIT DATA! **NEW**

Eliminate the guesswork with real-time property and permit data to help detect hidden risks and changes that affect exposure— and to better understand the evolution of your property risk. With our expanding footprint of coverage, you can now access high-quality, detailed permit data for Alberta, British Columbia, Saskatchewan, Ontario, Quebec, and Nova Scotia.



Permits on residential and commercial structures

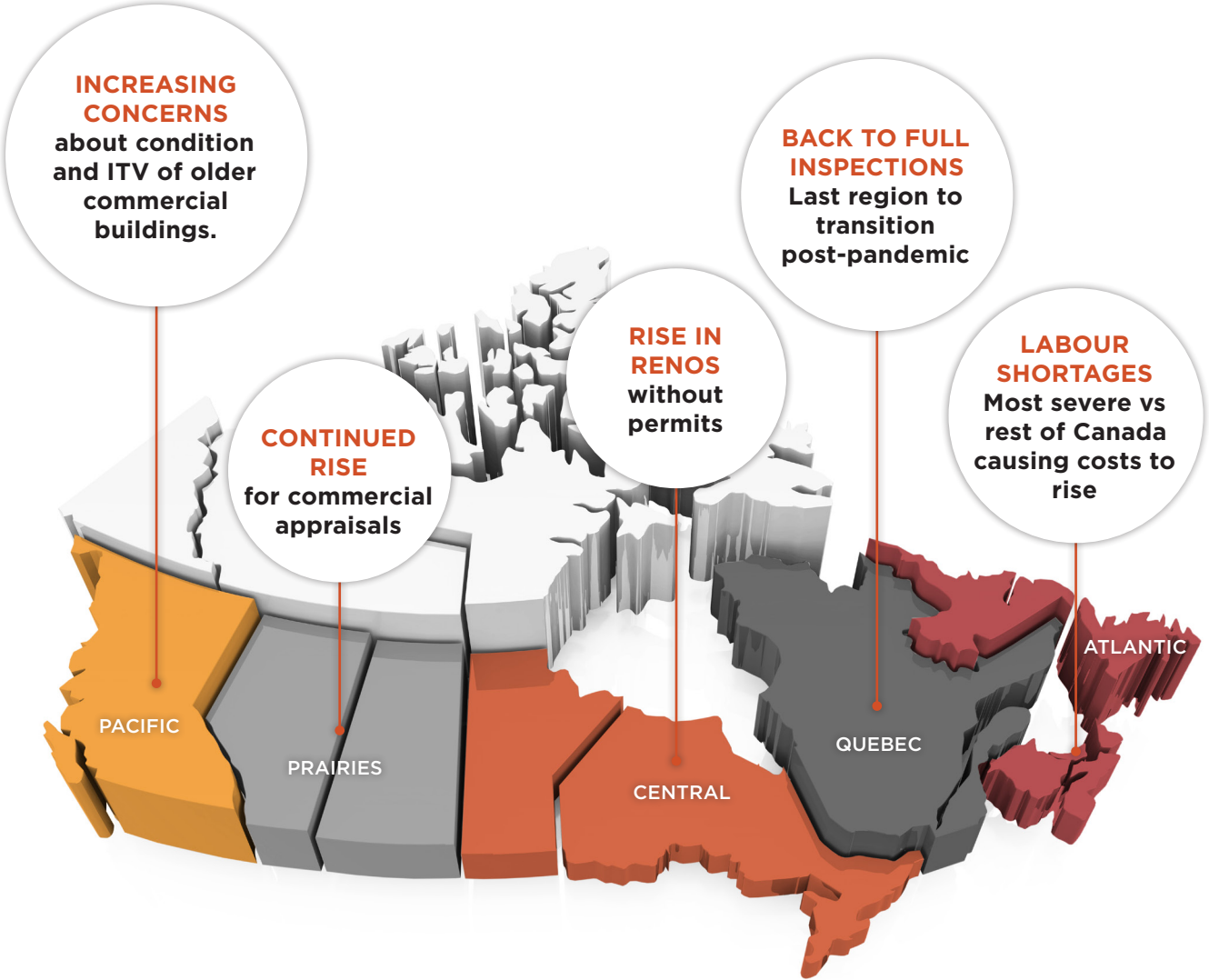


Average depth of historical data



Unique properties with permits

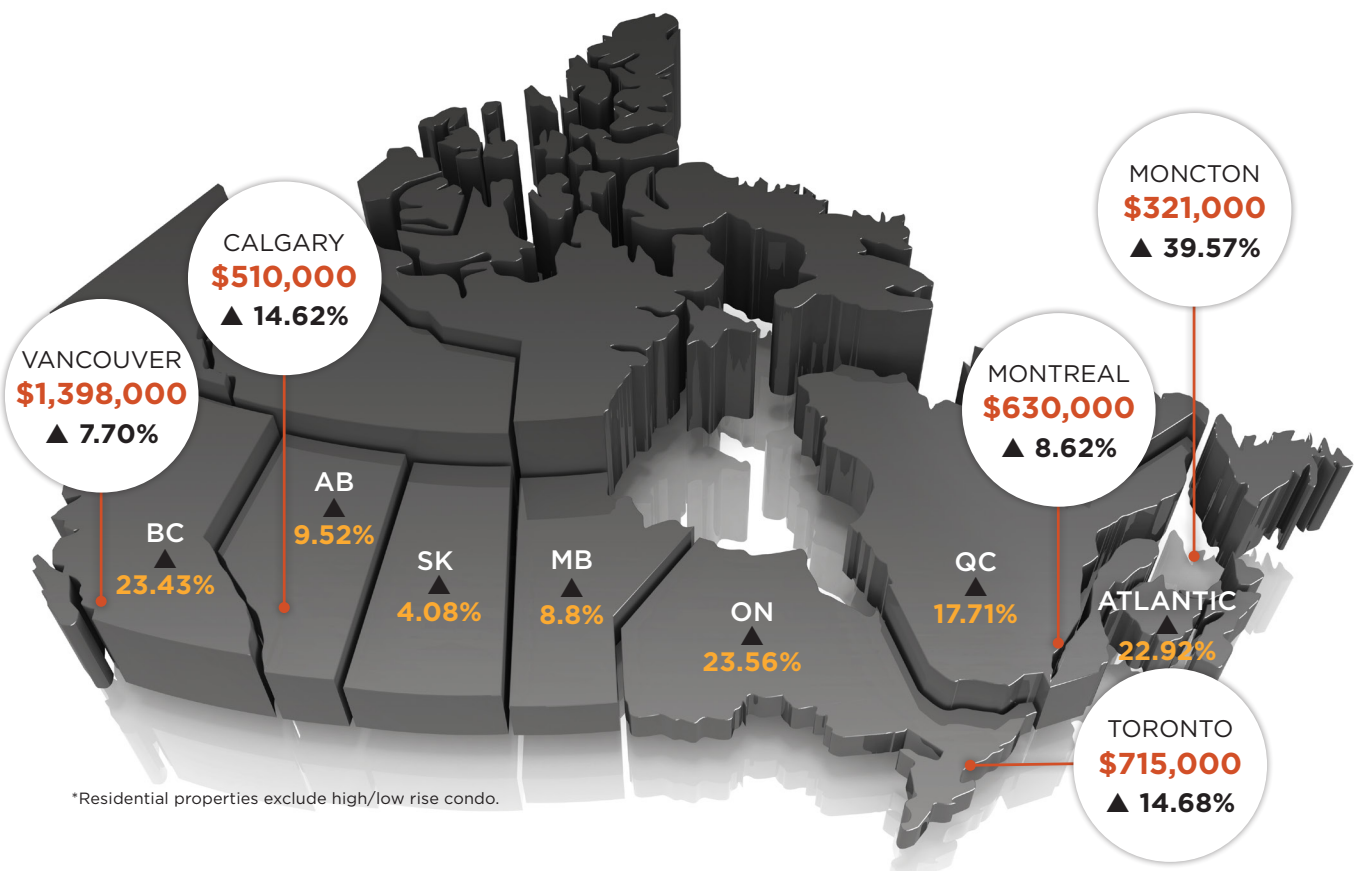
WHAT WE'RE SEEING



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

WILL THE REAL ESTATE SPRING MARKET CONTINUE TO BLOOM?

Home sales volumes in the first quarter of 2022 started lower than the Q1 in 2021 but higher than any previous year. Inventory remained low and demand was still high. Opta's internal statistics show home and condo values continued to increase in the first quarter responding to supply & demand issues. The spring market is historically the busiest time of the year in real estate, and while March 2022 sales were lower than March of last year, 2022 sales have still been increasing month over month. The interest rate hike announced in March 2022 caused a drop in April with many homes sitting for longer periods on the market. The rate increase is not solely to blame for the changes you may see happening in your neighbourhood as inflation had an impact as well. Canada's inflation rate for April is at a new 31-year high of 6.8%¹ with little signs of it stopping. However, CREA still predicts over 600,000 homes to be sold in 2022, which is a decline of 8.1%, but an increase from any other year prior to 2021². **Below shows the median sale price trend for Q1 and the YoY % change for residential properties (excluding condos).**



¹ <https://www.cbc.ca/news/business/canada-inflation-april-1.6457520>

² <https://www.crea.ca/housing-market-stats/quarterly-forecasts/>

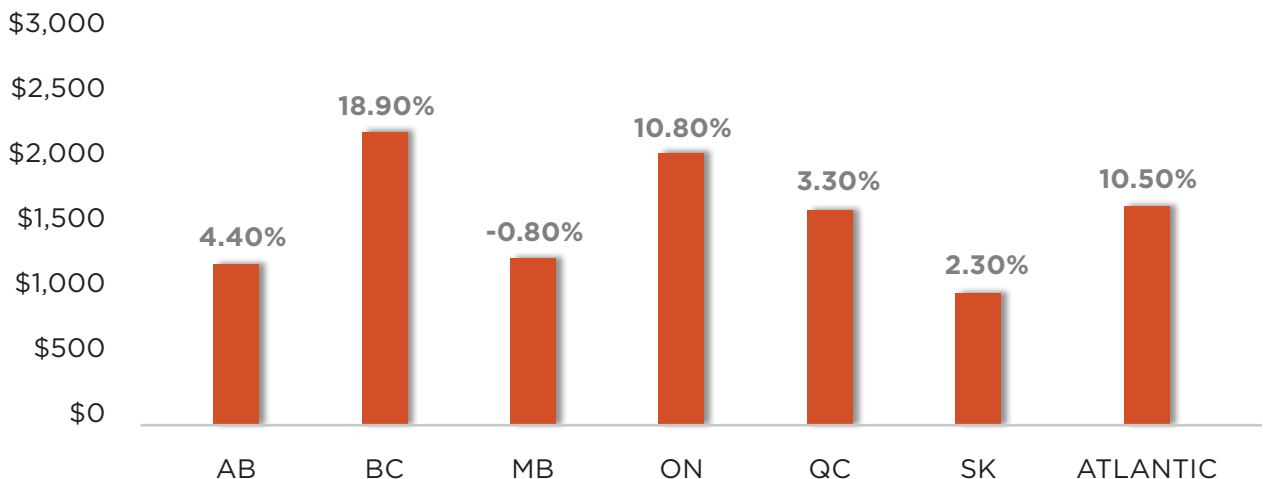
RENTAL MARKET HEATING UP

Investment properties are starting to take up more space in the mortgage market and investors continue to push out first-time home buyers. The Bank of Canada reported in Feb 2021 that investors made up 20% of existing home purchases. Major centers report higher rates (30-40%) of multiple-property owners.

For many Canadians, the only option is to rent. With real estate prices so high and the supply issues as of late, Lenders and FinTechs are looking for ways to break into the rental market through rent-to-own, vendor-takebacks, and even investment sharing. According to Rentals.ca, the provincial median rent month over month has increased the most in BC, Alberta, and Saskatchewan in April 2022³. Vancouver still leads with the highest average rental rates in the country followed by Toronto and Etobicoke. This is not surprising given we see the same trends in real estate prices. Rental rates are impacted by immigration and inflation and often mirror the real estate market. As Canada's rental market continues to heat up, understanding the rental potential of your book of business at a granular level is more critical than ever. Opta's new RentAVM solution supports FinTechs and Lenders breaking into the rental space. [Learn more here.](#)

MEDIAN RENT & ANNUAL CHANGE MARCH 2022⁴

Rental Median Price

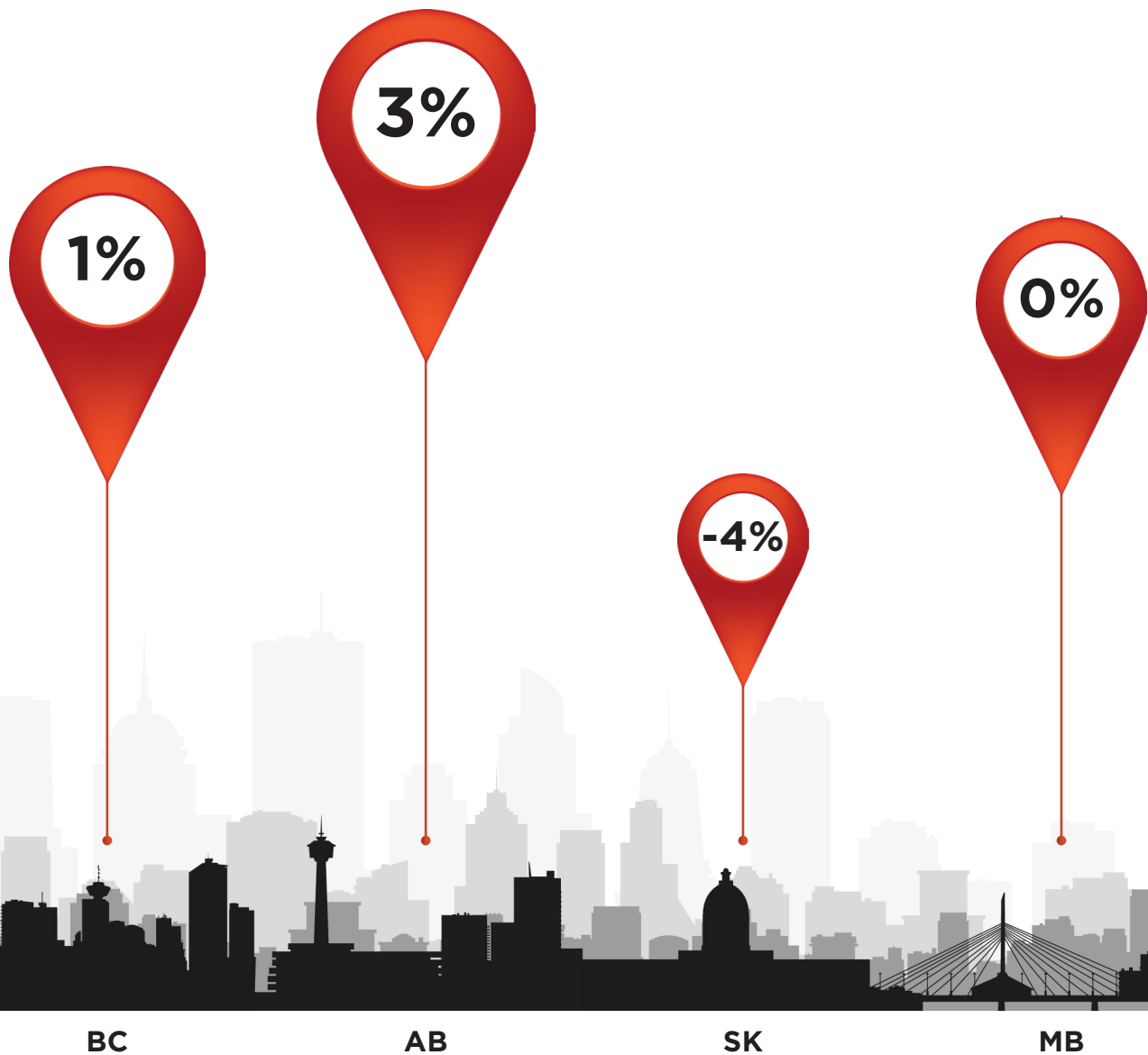


³ <https://rentals.ca/national-rent-report>

⁴ <https://rentals.ca/blog/rentals-ca-april-2022-rent-report>

NATIONAL TOTAL LOSS STUDY 2022

iClarify™ valuations have remained strong and well within the industry benchmark of +/-15%. A recent analysis was conducted across Western Canada for 42 losses to measure the accuracy and variance of iClarify™ Valuations vs contractor estimates. Below is a preview of the provincial results.



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

Accredited 1.5 CE



ENROL

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.

iClarify™ Commercial Features

Understanding Risk Assessment Tools and How to Use Them

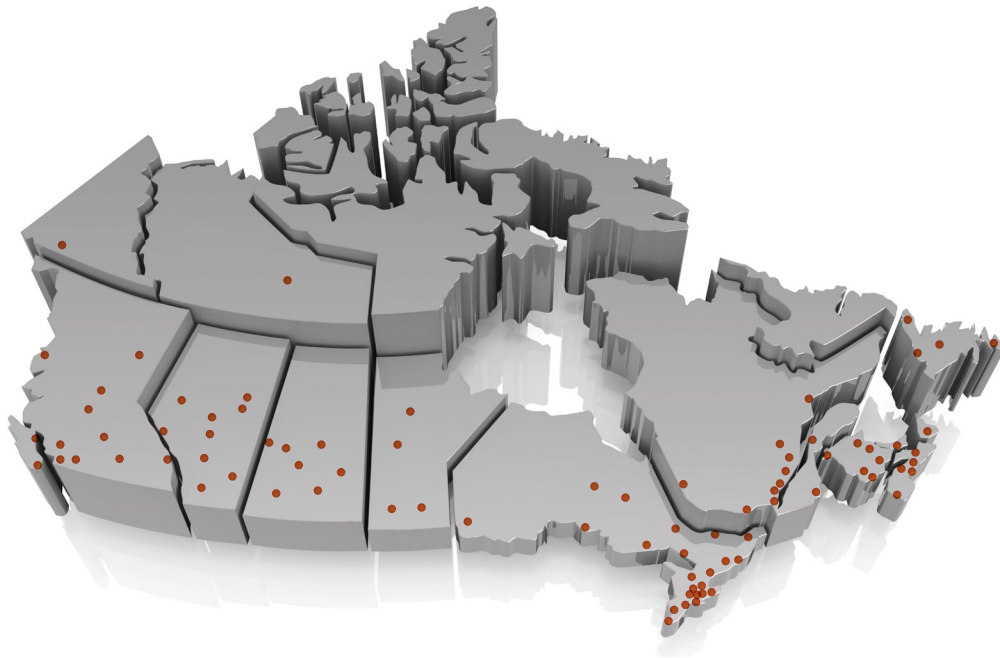
When assessing commercial risks, front lines insurance professionals often use different data driven tools to accurately put together a complete submission; fully understanding the risk goes beyond good faith between the broker and the client and depends on the broker's ability to use these tools properly. In this on-demand webinar, find out about the various data points and commercial underwriting factors in iClarify™ Commercial including the common questions that come up when using the platform.

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 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

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
Kapuskasing
Kenora
Kingston
Kitchener
London
Norfolk
North Bay

Oshawa
Ottawa
Parry Sound
Pembroke
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

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