

Ensuring Accurate Insurable Values in Volatile Times

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PRESENTATION SUMMARY

- **Rampant Inflation** - How we got here
- **Big Picture** - General economic indicators
- **State of construction industry** in North America & labour costs
- **Cost trends** for Building Materials & Components – what is the impact?
 - Building Construction cost trends by various sources
 - Building Construction costs – what can we conclude?
- **Cost trends** for Machinery and Equipment – what is the impact?
 - Machinery and Equipment cost trends by various sources
 - Machinery and Equipment costs – what can we conclude?
- How do we assess what **index factors** to use?
- How do we update or develop **property values**?
- **What does the future hold?**



RAMPANT INFLATION

COVID-19

“Working from home while homeschooling, Day 2:”



SUPPLY



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GOVERNMENT SPENDING



DEMAND



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SUNCORP
VALUATIONS

BIG PICTURE

MAIN ECONOMIC INDICATORS

Indicator	Canada	US
Where we were:		
Consumer Price Index (CPI): 2021-2022	5.10%	7.5%
Producer Price Index (PPI): 2021-2022	14.0%	9.7%
Unemployment Rate (2022):	5.90%	4.0%
Where we are:		
Consumer Price Index (CPI): 2022-2023	5.90%	6.4%
Producer Price Index (PPI): 2022-2023	5.10%	6.0%
Unemployment Rate (2023):	5.00%	3.4%



STATE OF THE CONSTRUCTION INDUSTRY IN CANADA

COST TRENDS LABOUR

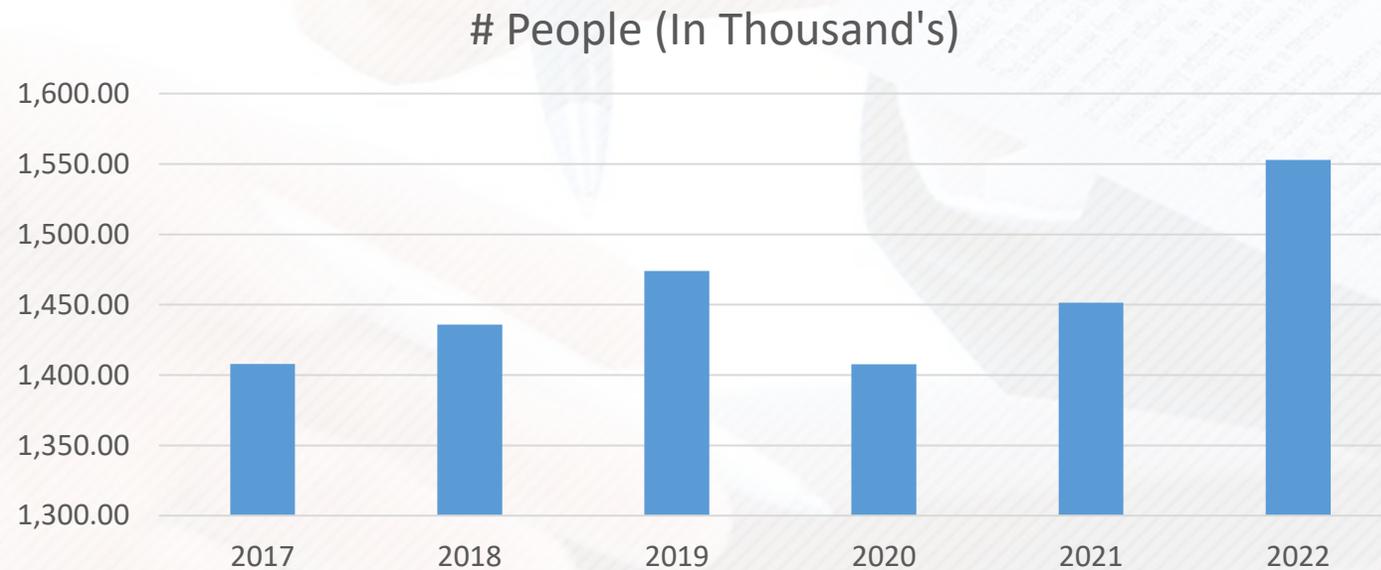
CONSTRUCTION INDUSTRY IN CANADA

INVESTMENT IN BUILDING CONSTRUCTION - CANADA



CONSTRUCTION INDUSTRY IN CANADA

LABOUR FORCE - CANADA



INITIAL CONCLUSIONS

- North American construction investment is high & projected to remain high
- Construction industry workforce is rebounding but at a cost
 - Labour represents around **30%-40%** of total building costs
 - 2021 - Labour Costs increase est. @ **4%-6%**
 - 2022 – We are seeing slow down on the pace of increase

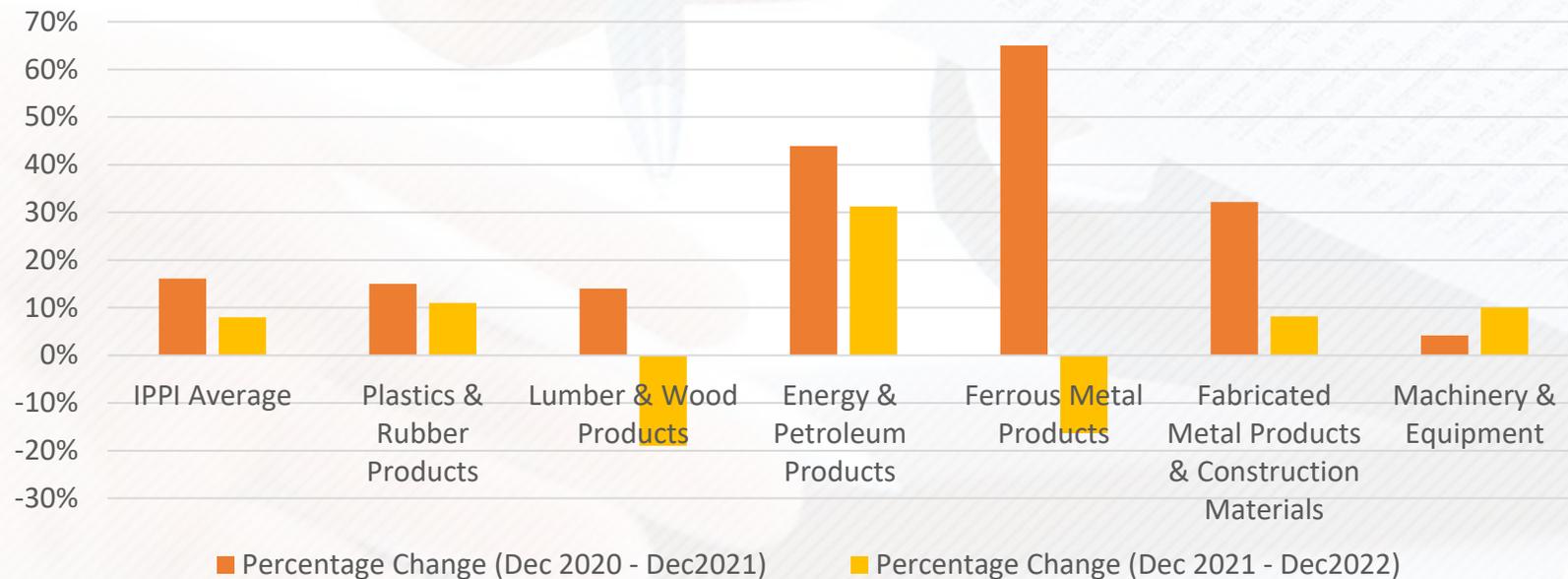


COST TRENDS BUILDING MATERIALS

COST TRENDS: BUILDING MATERIALS

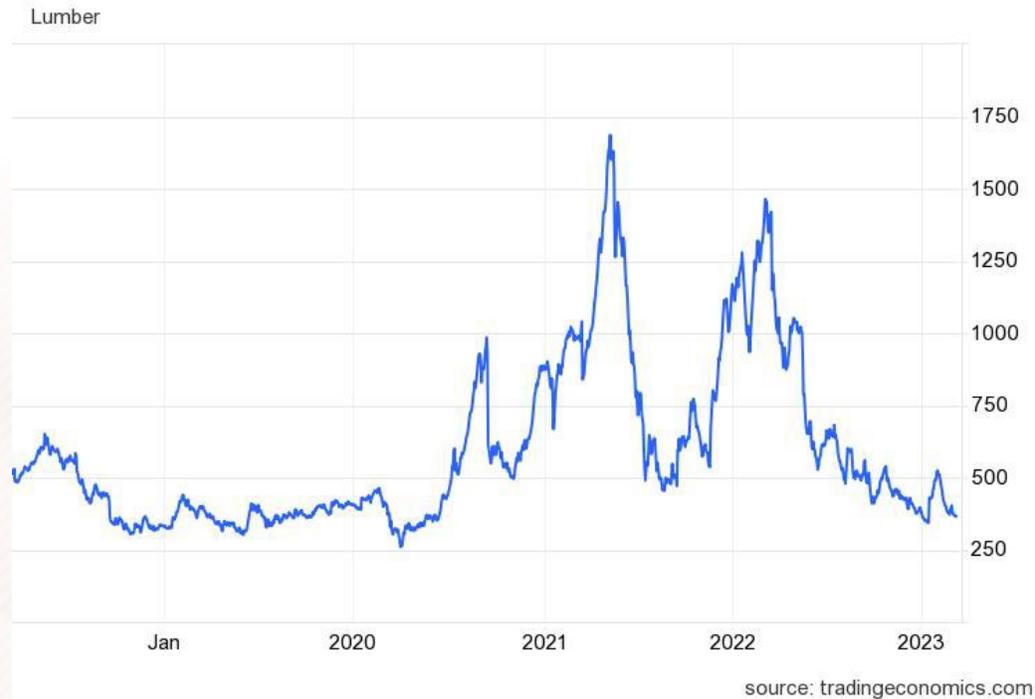
INDUSTRIAL PRODUCT PRICE INDEX (IPPI) - CANADA

Industrial Product Price Index



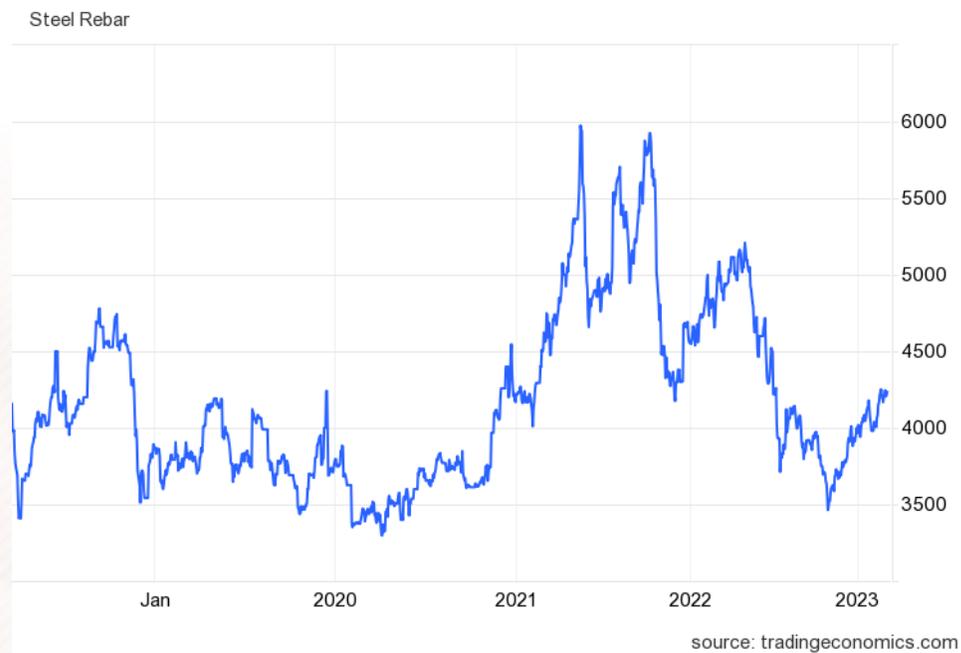
COST TRENDS: BUILDING MATERIALS

CONSTRUCTION MATERIAL COST CHANGES - LUMBER



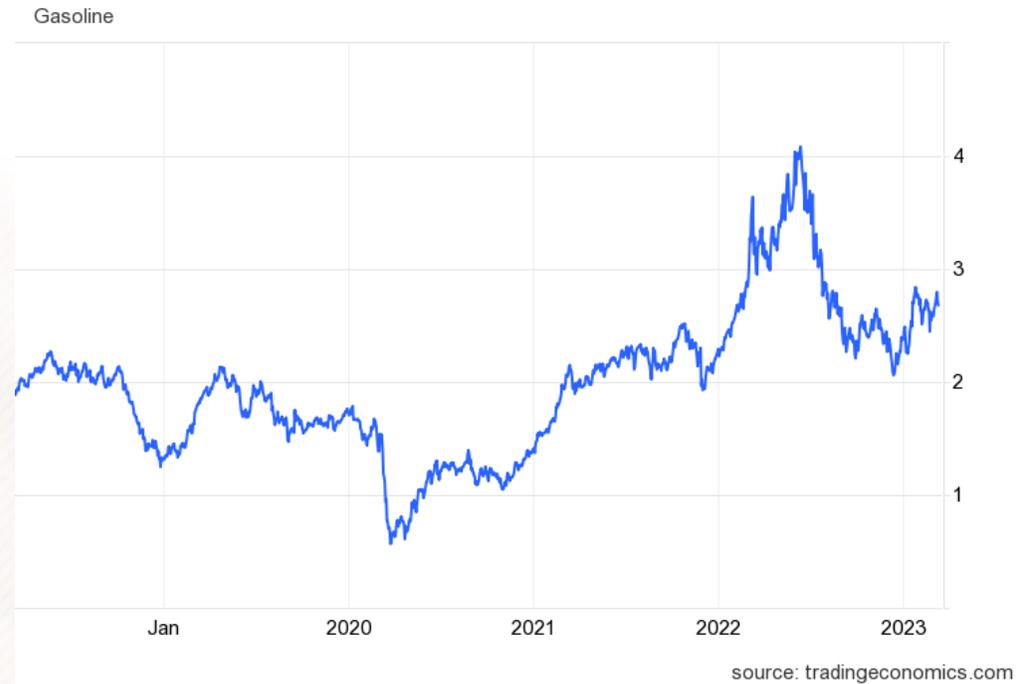
COST TRENDS: BUILDING MATERIALS

CONSTRUCTION MATERIAL COST CHANGES - STEEL



COST TRENDS: BUILDING MATERIALS

CONSTRUCTION MATERIAL COST CHANGES - GASOLINE

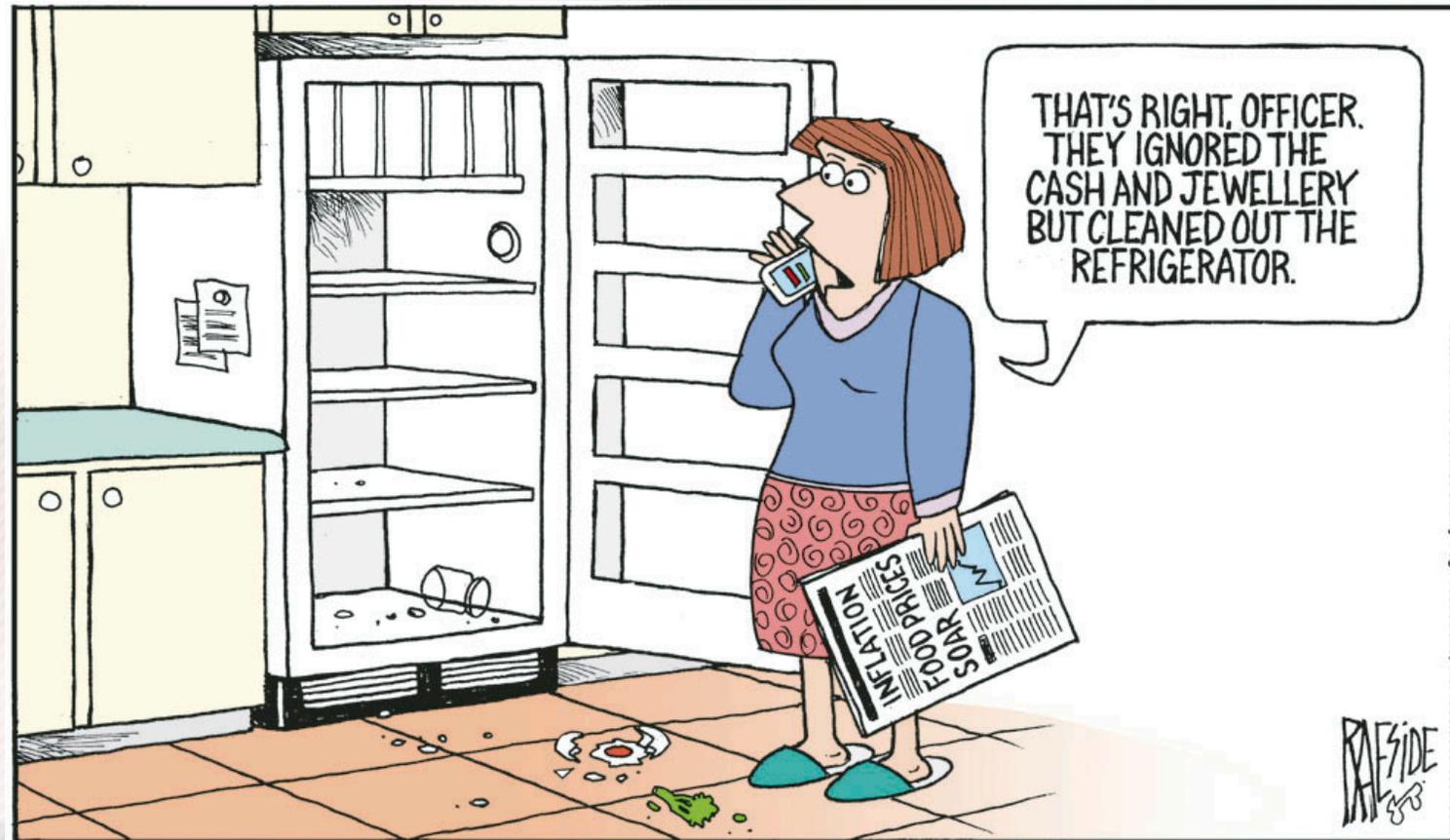


INITIAL CONCLUSIONS

INITIAL CONCLUSIONS

- Construction materials represent approximately **50%-60%** of total building costs
 - 2021 - Construction materials increased an average of **25%-30%**
 - 2022 – Just starting to see the fall in construction material prices
- 2021 - Bldg. Construction cost increase in the range of **12-18%** depending on Construction Type and Location
- 2022 - Bldg. Construction cost increase in the range of **10-12%** depending on Construction Type and Location

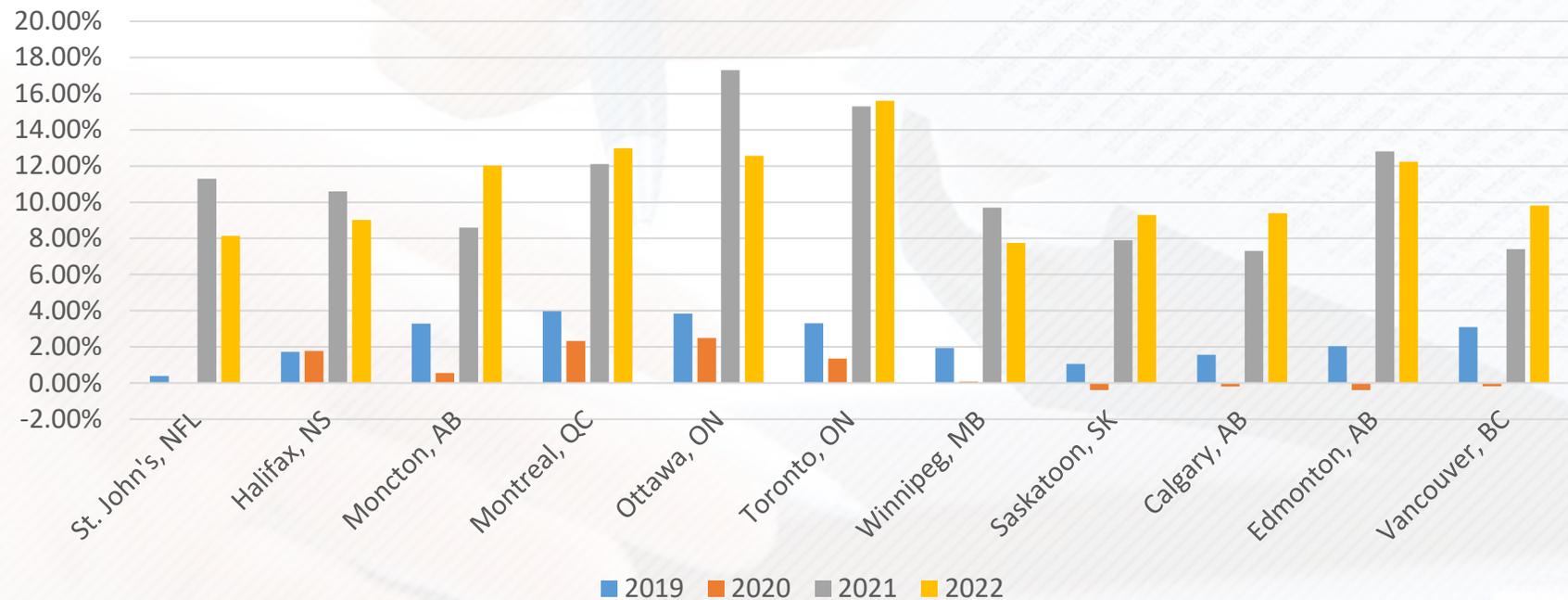
GOOD NEWS #1!



BUILDING COST TRENDS REPORTED BY VARIOUS SOURCES

COST TRENDS: BUILDINGS

COST INCREASES FOR NON-RESIDENTIAL CONSTRUCTION Stats Canada



BUILDING COST TRENDS

COST INCREASE FOR BUILDING CONSTRUCTION Marshall and Swift

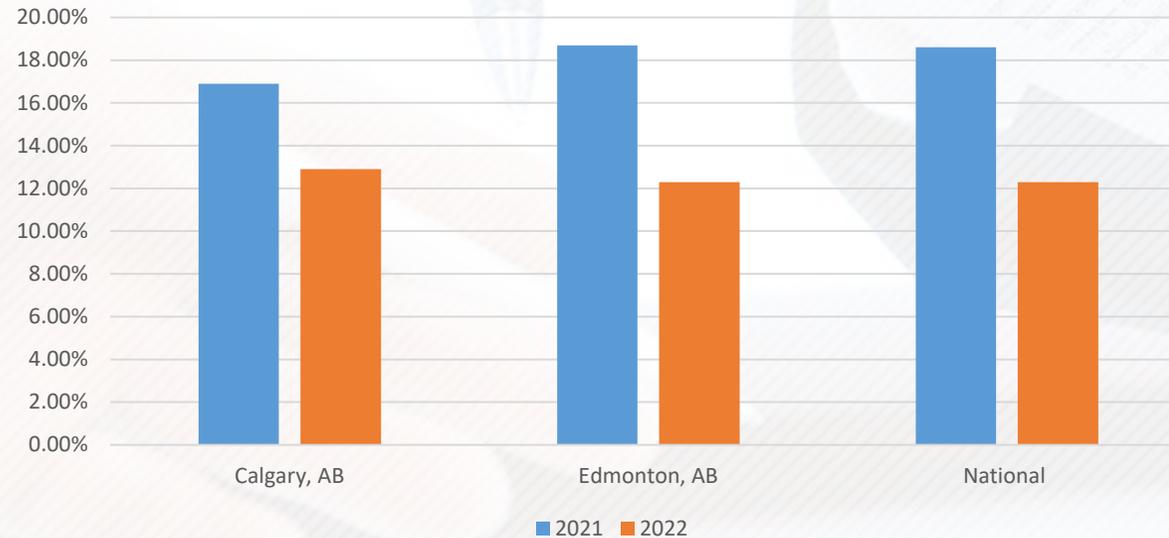
City	Fireproofed Steel Frame		Reinforced Concrete Frame		Masonry Bearing Walls		Wood Frame		Metal Frame & Walls	
	Class 'A'		Class 'B'		Class 'C'		Class 'D'		Class 'S'	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Halifax, NS	18.4%	10.9%	9.6%	10.4%	7.1%	10.8%	7.3%	10.9%	12.2%	9.6%
St. John's ,NFL	22.5%	12.1%	17.4%	10.6%	19.9%	8.3%	20.5%	10.2%	22.8%	9.9%
Quebec City, QC	19.5%	12.5%	11.2%	12.6%	10.1%	8.8%	10.2%	11.2%	14.0%	12.7%
Montreal, QC	19.4%	12.5%	13.8%	12.2%	13.6%	11.1%	14.8%	10.9%	17.8%	10.2%
Ottawa, ON	17.2%	12.4%	14.7%	9.3%	13.5%	9.2%	14.2%	9.1%	17.3%	9.0%
Toronto, ON	21.7%	10.3%	15.1%	9.7%	18.3%	8.6%	19.3%	8.5%	21.1%	9.1%
Windsor, ON	15.6%	12.6%	10.2%	10.2%	8.7%	9.7%	8.9%	9.8%	10.4%	10.8%
Sudbury, ON	19.5%	12.0%	15.2%	10.5%	14.3%	9.7%	14.7%	9.7%	19.0%	9.2%
Thunder Bay, ON	21.9%	9.3%	14.0%	8.5%	15.7%	8.3%	16.8%	8.6%	19.5%	8.8%
Winnipeg, MB	21.3%	15.3%	13.9%	12.4%	16.7%	12.1%	17.9%	11.4%	19.9%	10.4%
Regina, SK	18.0%	13.2%	11.9%	10.4%	14.8%	9.4%	15.4%	9.6%	18.1%	9.6%
Calgary, AB	16.9%	12.9%	10.6%	10.1%	10.9%	8.3%	1.2%	8.0%	14.4%	9.2%
Edmonton, AB	18.7%	12.3%	11.4%	10.0%	14.3%	9.0%	15.7%	8.5%	18.8%	9.5%
Vancouver, BC	17.7%	13.3%	8.0%	11.6%	8.2%	10.2%	10.9%	10.0%	12.4%	11.7%
Victoria, BC	21.1%	11.8%	12.5%	9.9%	16.7%	7.9%	17.2%	8.4%	19.6%	9.6%
National	18.6%	12.3%	12.2%	10.8%	12.8%	9.7%	13.8%	9.7%	16.5%	10.1%



COST TRENDS: BUILDINGS

COST INCREASES FOR BUILDING CONSTRUCTION MARSHALL VALUATION SERVICES

Percentage Increase Alberta Versus National



COST TRENDS: BUILDINGS

COST INCREASES FOR BUILDING CONSTRUCTION RS MEANS GUIDE



CONSTRUCTION COSTS CONCLUDING THOUGHTS

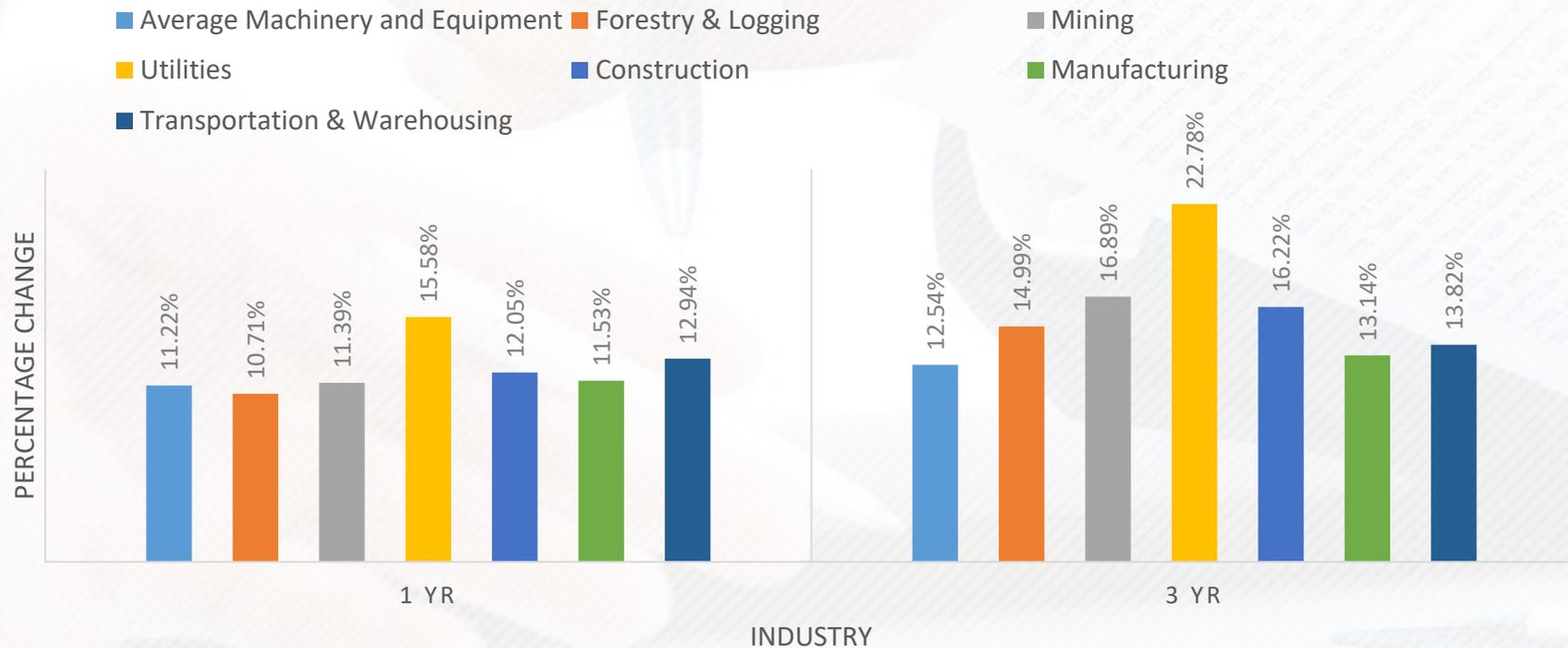
CONSTRUCTION COSTS CONCLUDING THOUGHTS

- All sources still reporting significant building construction cost increases
- The pace of increase appears to be slowing
- Selected regions experiencing 10%-15% increases
- Cost increases for all building types
- FM Global Trend Factors for Building Construction – January 2023
- Average for Canada: **13%**

COST TRENDS MACHINERY & EQUIPMENT

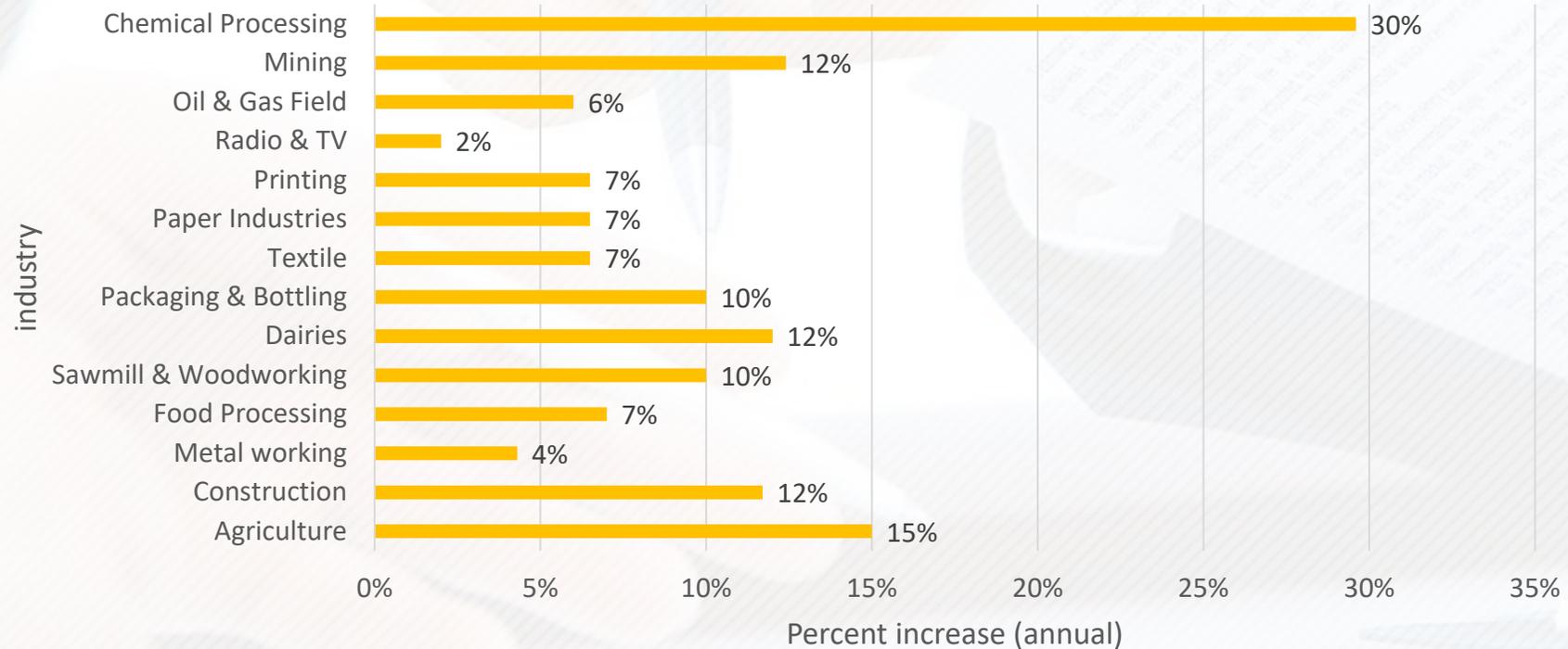
COST TRENDS: MACHINERY & EQUIPMENT

MACHINERY AND EQUIPMENT PRICING



COST TRENDS: MACHINERY & EQUIPMENT

PRICE INDEXES: BY INDUSTRY (JAN 2021 – Jan 2022)



COST TRENDS: MACHINERY & EQUIPMENT

EQUIPMENT COST INDEXES: BY INDUSTRY



MACHINERY & EQUIPMENT COSTS CONCLUDING THOUGHTS

M&E COSTS CONCLUDING THOUGHTS

- Reported Increases vary greatly by source.
- Cost increases less than buildings, but still significant.
- Direct relation between cost of materials & M&E costs.
- M&E location less of a factor than for buildings (except remote sites)

HOW TO ESTABLISH VALUES IN THIS MARKET

HOW TO ESTABLISH VALUES With a Credible Starting Point

- Confirm time period from last Appraisal/SOV
- Consider location & property type
- Segregate insurable values by asset class
- Use latest monthly/quarterly index factor
- Consider contingency factor for complex or remote properties



INDEX FACTORS

SELECTING INDEX FACTORS

ASSESS THE FOLLOWING:

- Reputation of the source.
- Frequency of published updates.
- Availability of regional factors.
- Are stats by building/construction type?
- Is state of local economy reflected?



HOW TO ESTABLISH VALUES Without a Credible Starting Point

PERFORM CURRENT APPRAISAL OR DETAILED ASSESSMENT

If Appraisal is not possible in the short term:

- Establish Insurable Values by Property Class
- Assess submitted Building Values via cost per square foot analysis
- Assess submitted Machinery & Equipment values via Cost per Unit Capacity analysis
- Consider contingency factor, especially for complex or Remote Properties
- Conduct Appraisal as soon as possible.



FINAL THOUGHTS

FINAL THOUGHTS

WHAT NEXT?

Welcome to the Next Age of Uncertainty!*



GOOD NEWS #2!

WE CAN OFFICIALLY GET RID OF THE FOLLOWING PHRASES:

1. Flatten the Curve;
 2. The New Normal;
 3. Supply Chain Issues;
- And most importantly...**
4. "in these unprecedented times"



THANK YOU

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