Insurable Values in Uncertain Times

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SUNCORP VALUATIONS

PRESENTATION SUMMARY

- **Rampant Inflation** - How we got here
- **Big Picture** - General economic indicators
- **State of construction industry** in Canada
- **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?
- **What does the future hold?**

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RAMPANT INFLATION

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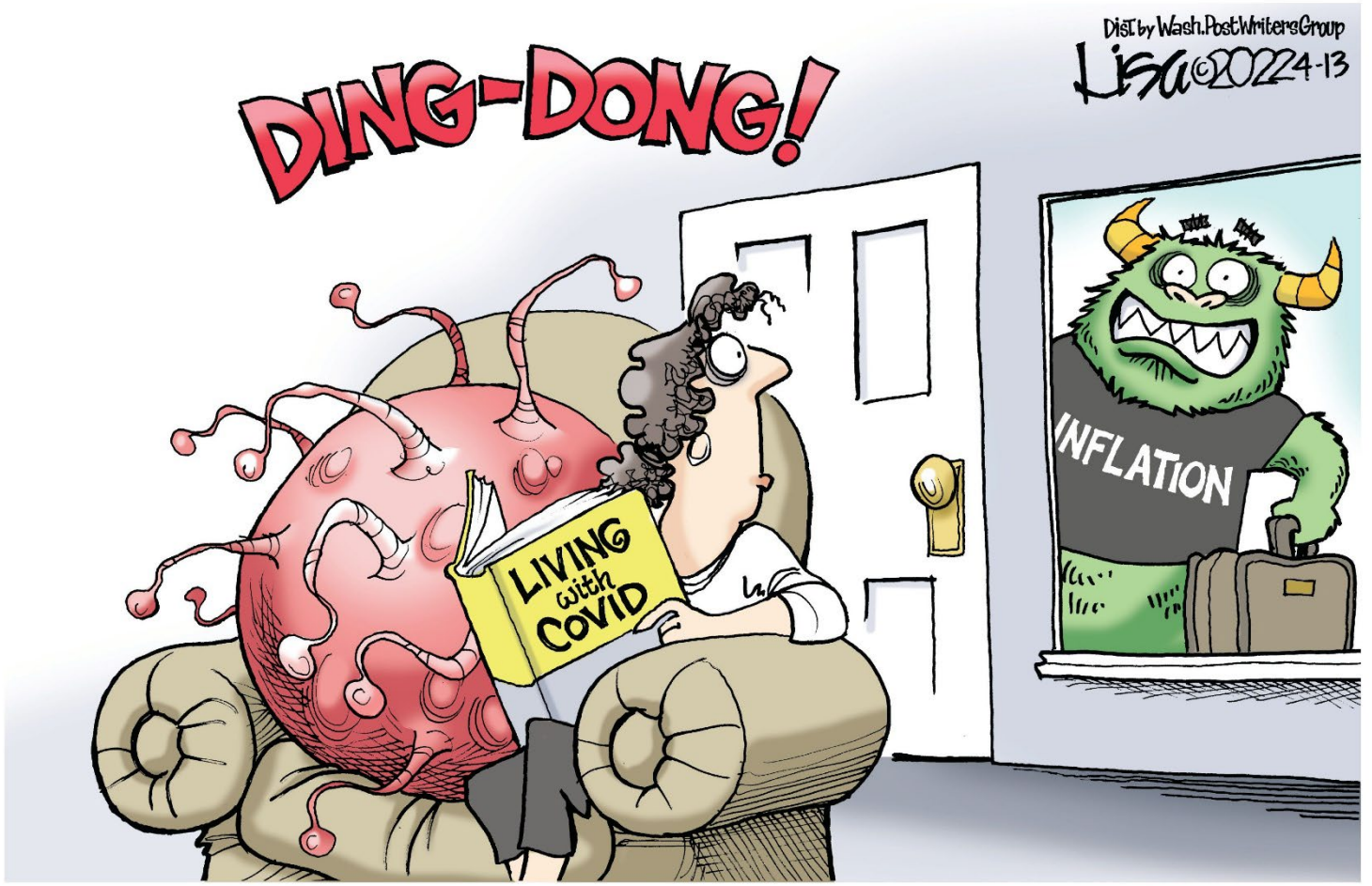
COVID-19



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TARIFFS

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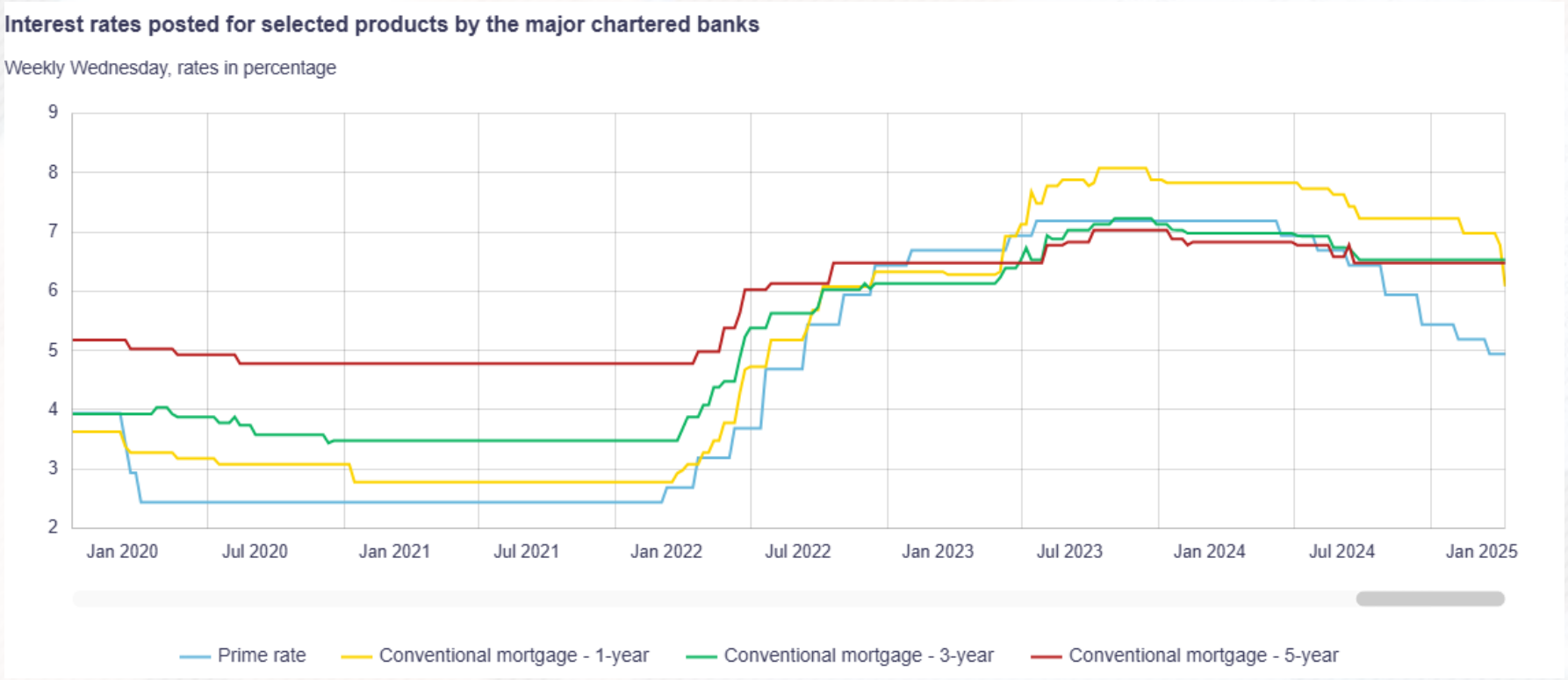
Big Picture - Main Economic Indicators - Canada

As at: March 2025

Economic Indicators	Units of Measure (Annual %/Amount)
Consumer Price Index (CPI):	2.6%
Producer Price Index (PPI):	0.4%
2024 Projected Annual Deficit:	$61.9 Billion
Unemployment Rate:	6.7%
Central Bank Interest Rate:	2.75%

BIG PICTURE

Interest Rates



Source: Bank of Canada

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STATE OF THE CONSTRUCTION INDUSTRY IN CANADA

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COST TRENDS: LABOUR

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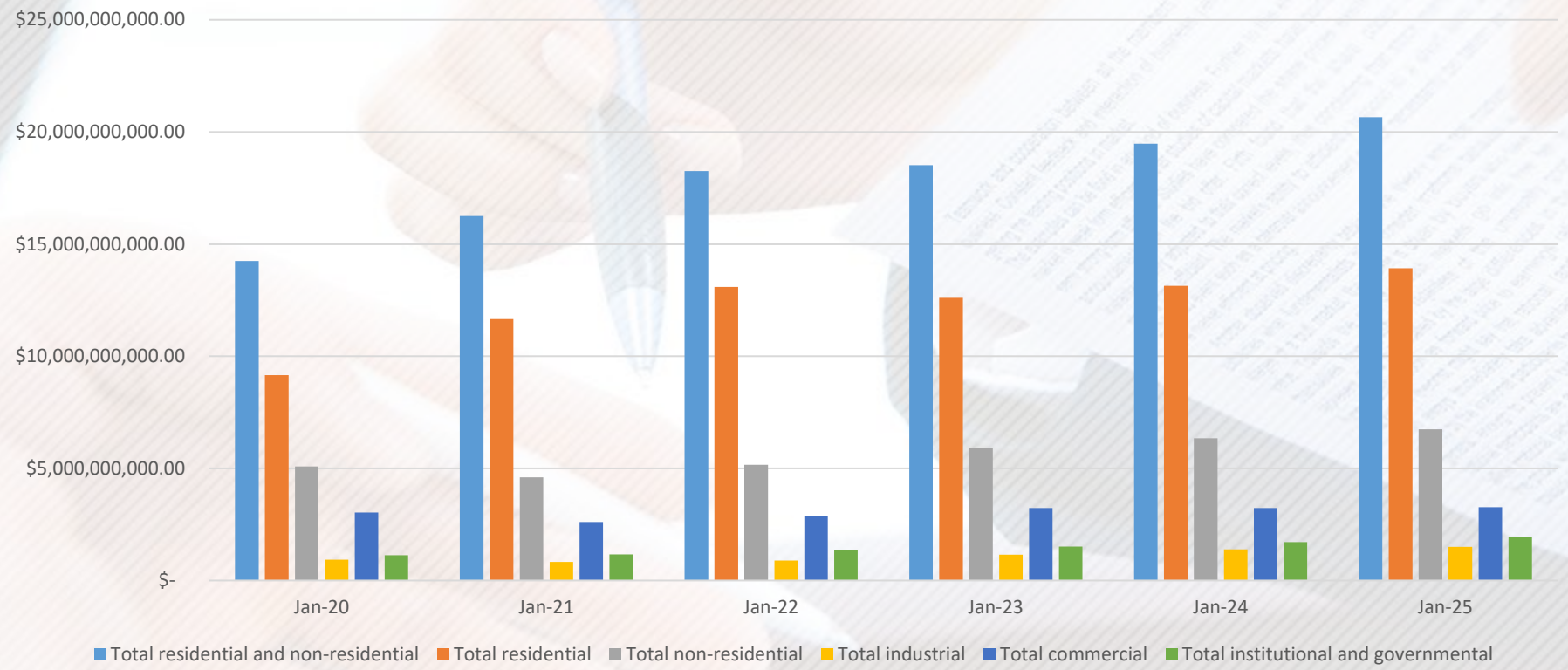
CONSTRUCTION INDUSTRY IN CANADA



Source: Statistics Canada. Table 34-10-0175-01 Investment in Building Construction

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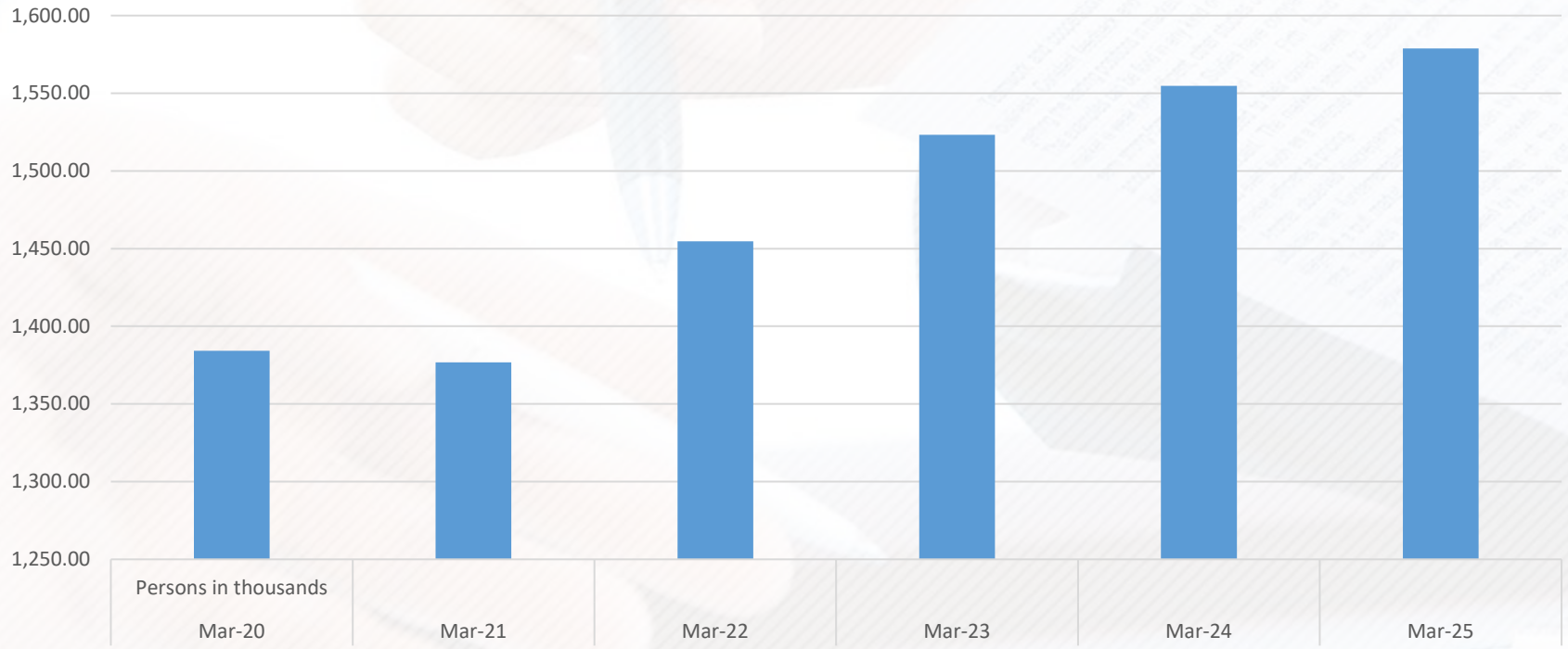
CONSTRUCTION INDUSTRY IN CANADA

LABOUR FORCE (Construction Industry) - CANADA



Source: Statistics Canada. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002201

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INITIAL CONCLUSIONS

- Construction investment has remained strong despite increased project costs. Sustained level of investment despite higher costs has meant fewer overall projects and demand is starting to build up.

- Construction industry workforce has rebounded
  - Labour represents around **30%-40%** of total costs in construction
    - 2022 – Labour Costs increased at an estimated **4%-6%**
    - 2023 – We saw a slow down in the pace of increase
    - 2024 – Starting to see the stabilization in costs associated with labour

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COST TRENDS: MATERIALS

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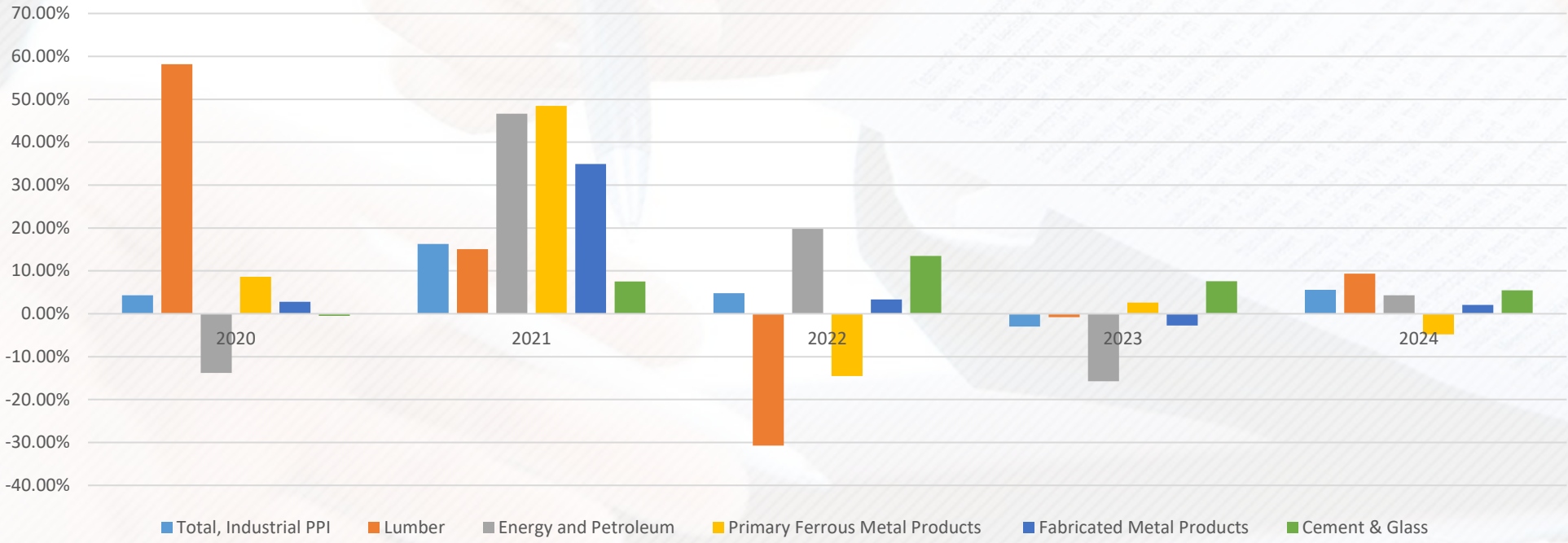
COST TRENDS: BUILDING MATERIALS

INDUSTRIAL PRODUCT PRICE INDEX (IPPI) - CANADA



Source: Statistics Canada

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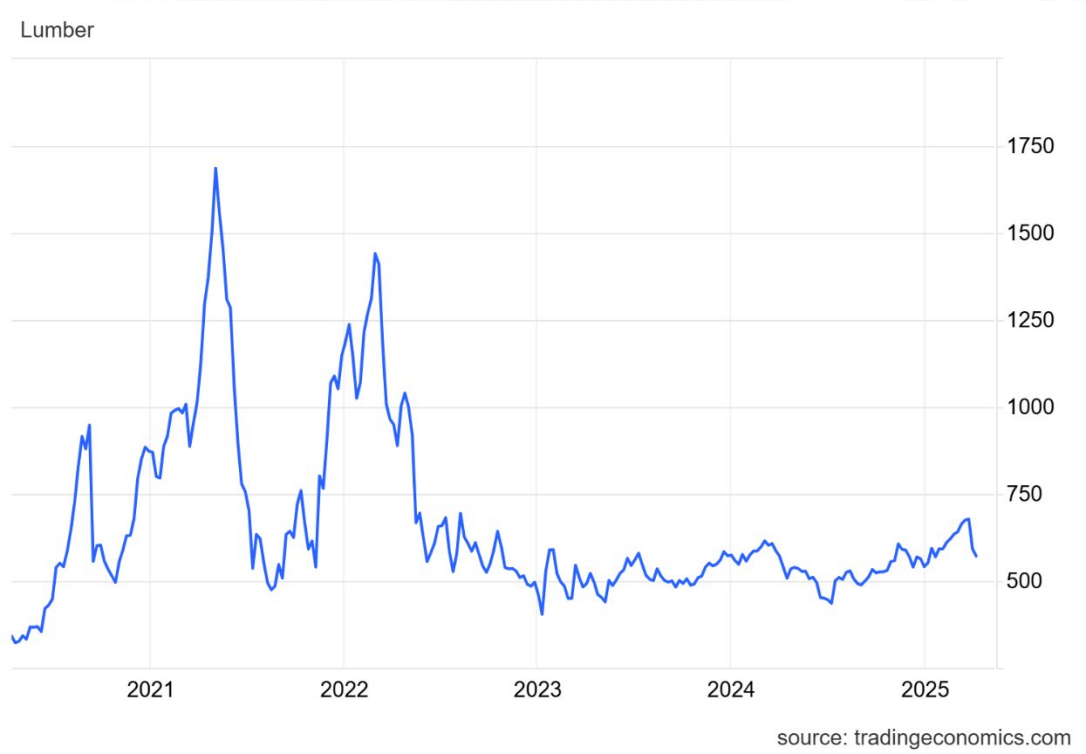
COST TRENDS: BUILDING MATERIALS

CONSTRUCTION MATERIAL COST CHANGES - LUMBER



Source: Trading Economics

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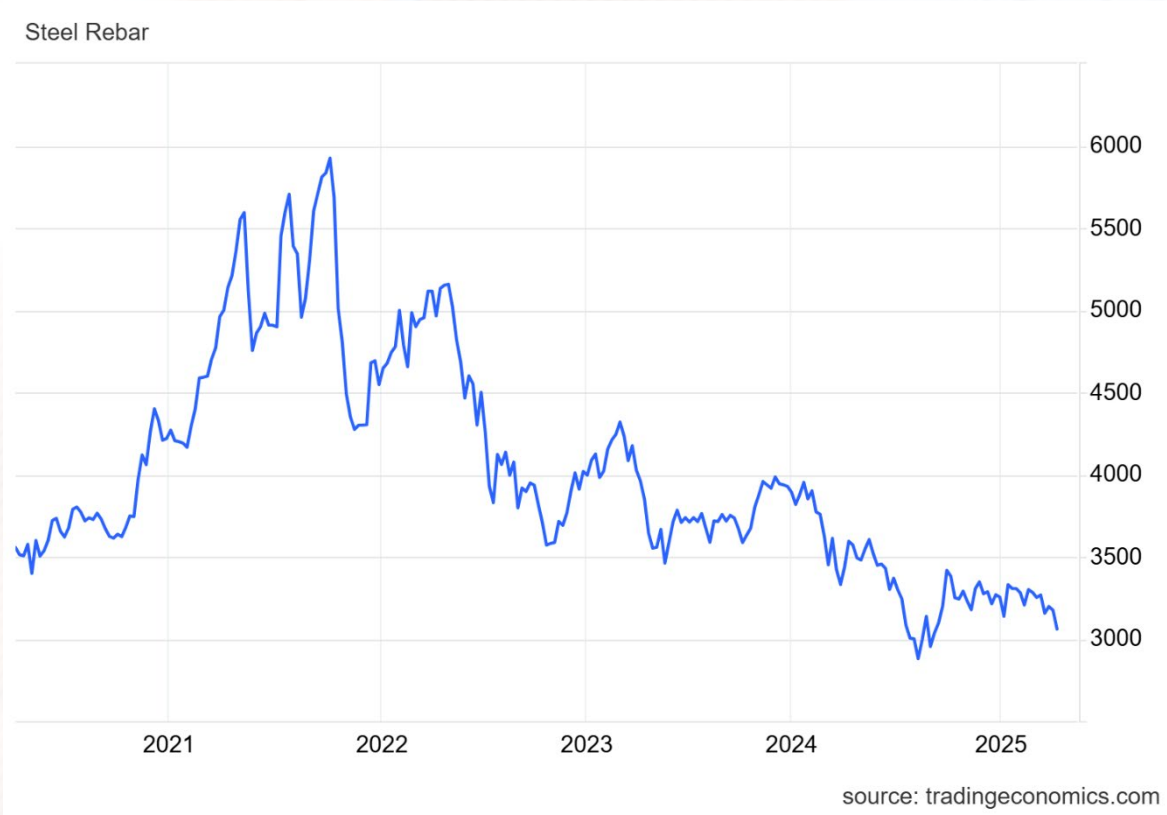
COST TRENDS: BUILDING MATERIALS

CONSTRUCTION MATERIAL COST CHANGES - STEEL



Source: Trading Economics

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CONCLUSIONS

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CONCLUSIONS

Construction materials represent approximately **50%-60%** of total building costs

- 2021 – Construction materials increased an average of **25%-30%.**
- 2022 – Construction materials continued the increase on an average of **15%-20%.**
- 2023 – Saw a stall or beginning of pull-back in construction material prices.
- 2024 – Move to stability with a return to pre-COVID material values .

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COST TRENDS
REPORTED BY VARIOUS SOURCES

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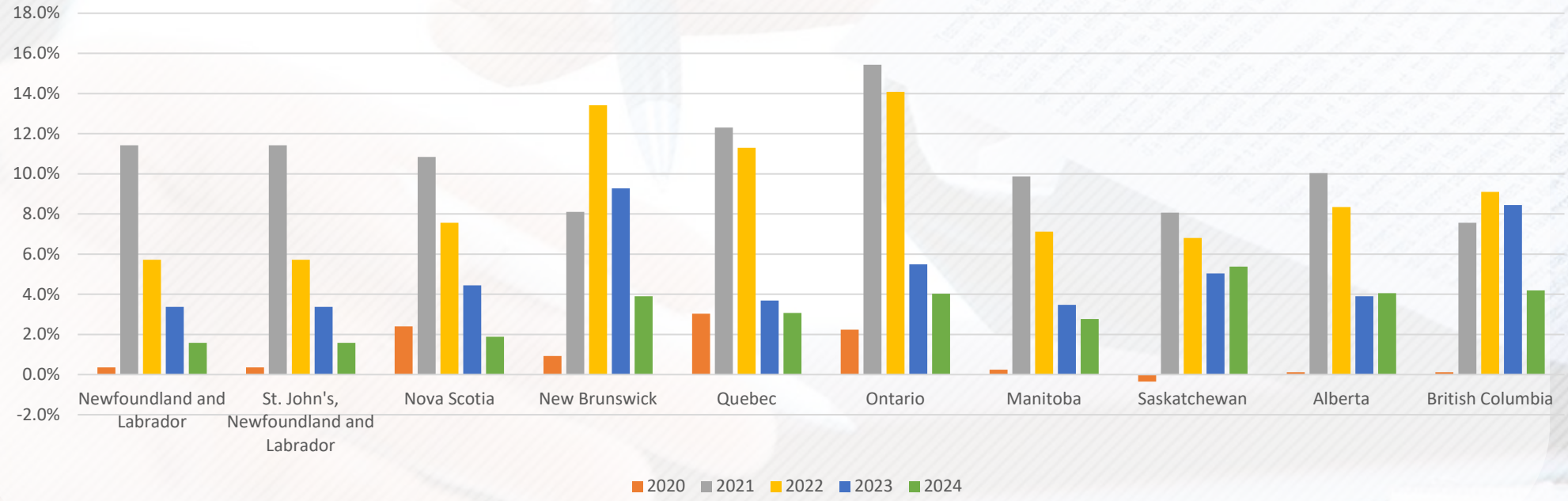
COST TRENDS: BUILDINGS

COST INCREASES FOR NON-RESIDENTIAL CONSTRUCTION

Stats Canada



Source: Statistics Canada

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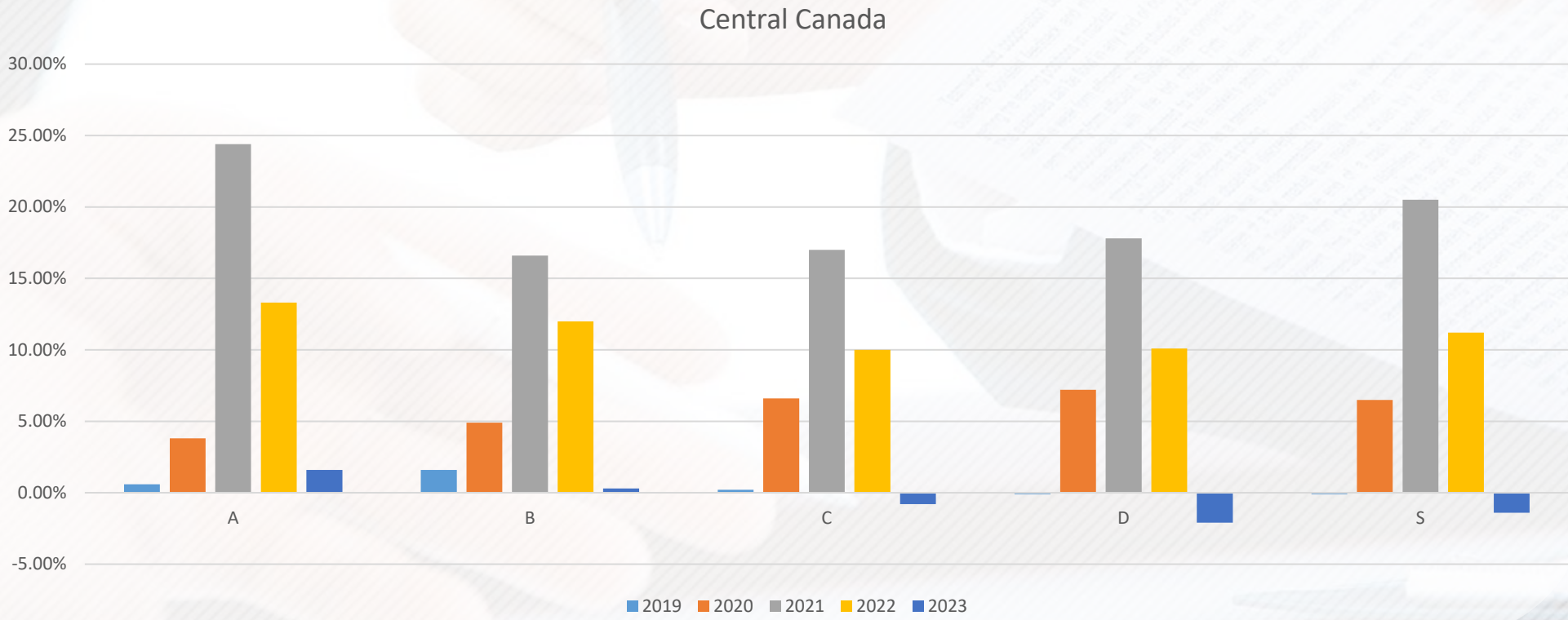
COST TRENDS: BUILDINGS

COST INCREASE FOR BUILDING CONSTRUCTION
Marshall and Swift



Source: Marshall and Swift

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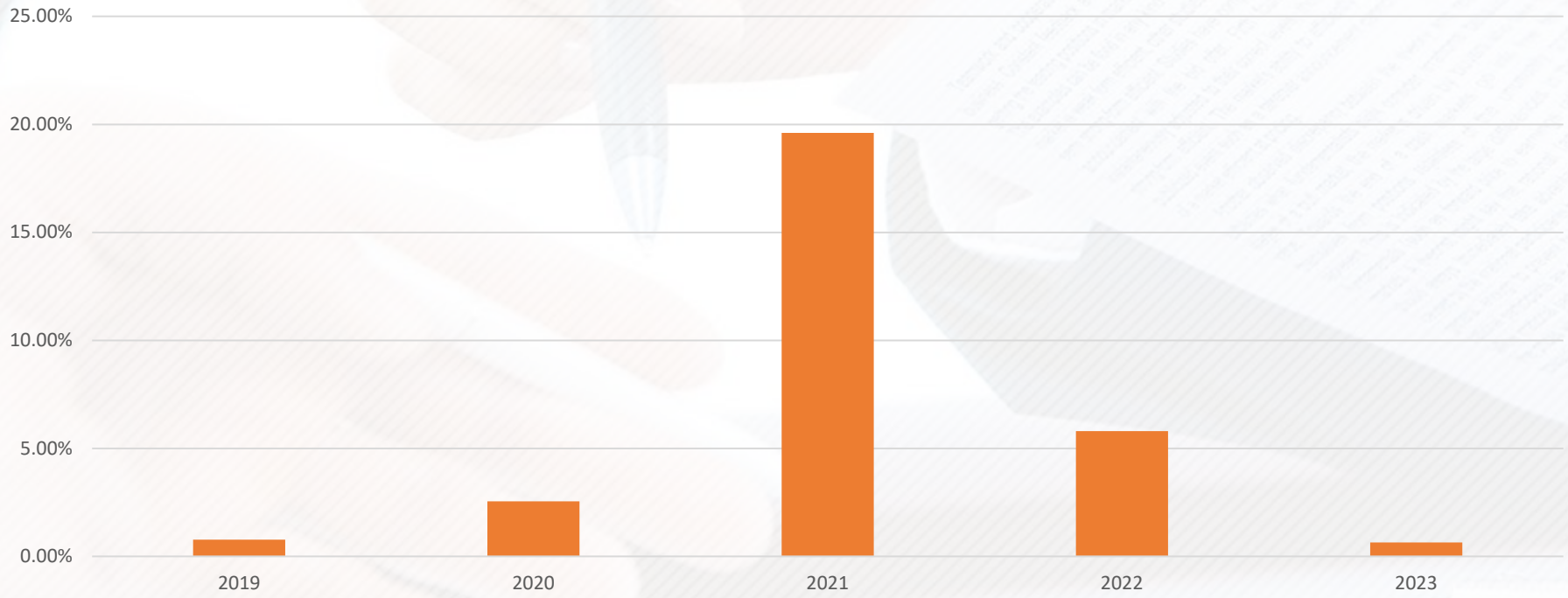
Construction Cost Ranges

Occupancy	Cost Range Per Square Foot (2024 - CDN Dollars)
Condo/Strata:	$350- $450
Educational Property:	$500 - $800
Airports:	$800 - $1,100
Bus Terminals/Garages:	$400 - $500
Fire Departments:	$600 - $900
Police:	$500 - $600
Library:	$500 - $800
<u>Recreation Buildings:</u>	
Ice:	$400 - $600
Aquatic:	$600 - $900
Multi-Use Facility:	$550 - $1,100
Museum:	$550 - $900

Source: Various External & Suncorp

COST TRENDS: MACHINERY & EQUIPMENT

EQUIPMENT COST INDEXES: National Average Marshall and Swift



Source: Marshall and Swift

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CONSTRUCTION COSTS CONCLUDING THOUGHTS

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CONSTRUCTION COSTS CONCLUDING THOUGHTS

- All sources reporting significant building construction cost increases for 2021 & 2022
  - 2021 - Construction cost increase in the range of 12-18% depending on Construction Type and Location
  - 2022 - Construction cost increase in the range of 10-12% depending on Construction Type and Location
- The pace of increase in 2023 & 2024 slowed.
  - Raw material prices have returned to pre-covid levels
  - Supply backlogs have generally caught up
  - Gradual easing of interest rate increases starting to make on new projects viable.

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M&E COSTS CONCLUDING THOUGHTS

- Cost increases were less than buildings, but still significant.
- Direct relation between Cost of Materials & Machinery and Equipment costs.
- Machinery and Equipment cost location less of a factor than for buildings (except remote sites)

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INSURANCE VALUATIONS IMPORTANT POINTS

?

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WHAT IS AN INSURANCE APPRAISAL?

- Performed by **Qualified Accredited Valuators**
- It complies to strict standards set and regulated by **National or International Appraisal Societies**
- A valuation can include **many types of property** (buildings, machinery & equipment, site improvements, rolling stock, inventory)

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ESTABLISH CORRECT PREMISE OF VALUE!

- Historical Cost
- Net Book Value
- Market Value
- Allocated Purchase Price
- Liquidation Value

- Cost of Reproduction New
- Cost of Replacement New
- Cost of Reproduction New Less Depreciation (AKA Actual Cash Value)

Difference between Market Value and Insurable Values

What is the difference between Market Value and an Insurance Value anyways?

- Definition of Reproduction/Replacement New versus Market Value
- Insurance values looks at Material Costs and Labor Rates
- Market Value looks at competitive forces such as Supply/Demand and Scarcity
- Inclusions of the Valuation Can Differ i.e. Consideration of Land in Market Value or Demolition and Debris or Building Codes issues with Insurance Values

ESTABLISH CORRECT PREMISE OF VALUE

Assume we have a 10-year-old riding forklift truck 5,000 lb. capacity in good condition…

Original Cost:	$25,000
Net Book Value:	$8,300
Fair Market Value:	$10,000
Orderly Liquidation:	$5,000
Replacement Cost:	**$32,000**
Actual Cash Value:	**$15,000**
Scrap Value:	$800

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RISK TRENDS & BEST PRACTICES

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OVERVIEW

What has been trending in risk?

- Wildfires
- Water Escape Plan
- Signage
- Carbon Monoxide Risk
- Political Risk

WILDFIRE

The Growing Wildfire Challenge

- Climate change and land-use changes are driving this trend, with extreme wildfire activity projected to increase significantly.
- Alberta is experiencing more frequent and extreme wildfires, particularly in the Wildland-Urban Interface - the area where wildland vegetation meets or mixes with human development, such as homes, businesses, and infrastructure
- Risk Reduction = Loss Prevention: Proactive mitigation leads to fewer claims and reduced severity of wildfire-related losses.

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WILDFIRE

Wildfire Mitigation and Resources

- At a building level:
  - Vegetation Management
    - Reducing flammable vegetation from around your building
  - Construction
    - Roof, siding & chimneys/vents
  - Storage

ALBERTA FireSmart™ FireSmart™ Canada

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WILDFIRE

Training and Evacuation

- Who is in charge?
- What are their responsibilities?

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WILDFIRE

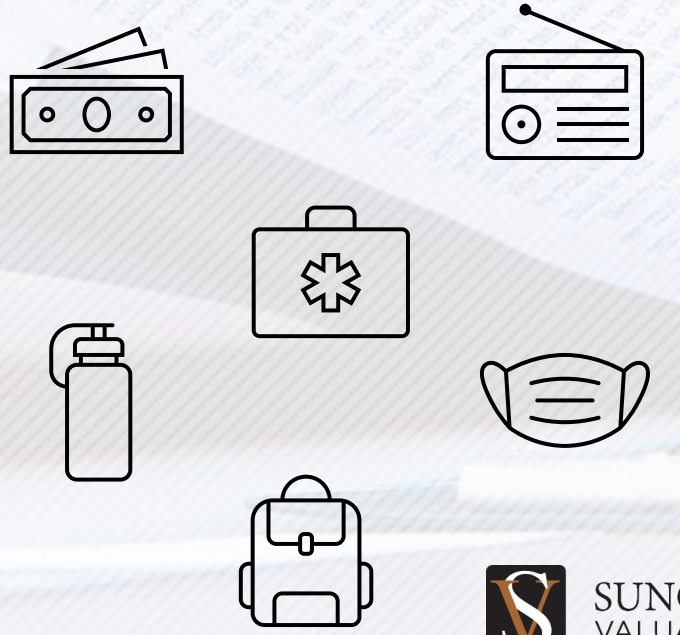
Air Quality

1. Monitor air quality frequently
2. Educate employees, supervisors and managers
3. Update your emergency response procedures
4. Develop control measures to protect outdoor employees
5. Take steps to protect indoor employees from smoke polluted air

WILDFIRE

Emergency Preparedness

- It is unsettling to think about but with how quickly evacuation notice can be sent it is wise for people to think about what might be needed in the event of an emergency similar to an earthquake kit.
    - Survival Essentials
    - Safety & Protection
    - Miscellaneous/Additional Considerations



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WATER ESCAPE PLAN

The Risk

- One of the most frequent and costly property claims that arise involve water.
- Losses can stem from a slow undetected leak or a sudden burst that occurs during operation or after hours.
- It is not mandated that every building have a plan in place, but we believe there is value in even something basic. The goal should be to have a process that outlines the a few key elements and ensure there is someone designated in charge of it.
- After leaving here ask yourself:
    - Does our municipality or each building/facility have some kind of plan?
    - If not, who in your organization or at the building should create a plan?

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WATER ESCAPE PLAN

Framing a Plan

1. Determine who will oversee ensuring the plan is followed
2. Identify and train staff
3. Create a water valve isolation map
4. Ensure there is clear signage
5. Testing schedule
6. Outline the steps to be taken in the event of water escape.

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WATER ESCAPE PLAN

Framing a Plan

- Other items that can be included in a plan are:
  - Leak detectors or sumps (depending on location) .
  - Develop and implement a roof inspection program that includes a quarterly review:
    - Check for pooling (especially after rain)
    - Check roof drains, downspouts (including grading at the ground level) for clogs, slow flow or leaks
  - Vacant or winter shut down process
  - Develop winterization plan which would include turning off water and/or draining water lines.
  - Building envelope inspection schedule could also be developed

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LEAK DETECTION

Options

- Localized detectors
- Modify current systems
- Stand alone companies

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SIGNAGE

Managing Liability: Signage Types

- Rule and Regulations
- Warnings
    - Acceptance of Liability
- Notification of Hazards/Restricted Area
- Exits
- Life Safety/First Aid
- Facility Map

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CARBON MONOXIDE RISK

Monitors & Detectors

- CO monitors/detectors are increasingly in the news due to their role in measuring indoor air quality, particularly in relation to ventilation and potential health impacts
- Monitors
    - Uses: knowing the level of CO in a space helps the owner understand the buildings ventilation. This is important to know for CO and for illness transmission – less ventilation increases the risk of each
    - E.g. Since 2022 West Vancouver Memorial Library, the North Vancouver District Public Library (NVDPL) and Peterborough, Toronto Public Libraries are stocking CO2 monitors - If you monitor, you have more information on how to address ventilation
- Detectors
    - Uses: alarms will advise when levels get too high. This knowledge will allow staff to evacuate the space until the source of the leak or proper ventilation can be addressed.

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CARBON MONOXIDE RISK

Heath Impact, Requirements & Next Steps

- Symptoms
  - Headache, dizziness, weakness, nausea and vomiting, rapid heartbeat, shortness of breath, seizures, chest pain, disorientation, and loss of consciousness

- Universally in Canada, most provinces and territories require CO alarms in residential occupancies and mandate where they should be placed but not in commercial buildings.

- Why don’t they speak about commercial buildings?

- What to do next?

- Importance of Regular Inspection/Replacement

  - CO alarms should be replaced according to the manufacturer's instructions, typically every 7-10 years

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POLITICAL RISK

Civil Unrest

1. What is civil unrest and why is it important for the insurance industry?
2. What are the major drivers shaping social unrest over the next 10 years?
3. What can you do to manage the risk?

Source: Political Risk: Implications for the Insurance Industry in Canada
CIP Society (insuranceinstitute.ca)

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POLITICAL RISK

What is civil unrest and why is it important for the insurance industry?

- 'Civil unrest' is an umbrella term for a wide spectrum of phenomena, and although there is no commonly agreed United Nations definition the term is used widely among United Nations agencies, funds and programs, particularly to describe violent and non-violent group acts.
- Civil unrest is generally understood to include limited political violent (acts of terrorism, individual assassinations, etc.), sporadic violent action (riots), or non-violent or mildly violent collective action (protests, demonstrations, etc.) – all of which tend to take place during times of peace.
- Escalation can lead to property damage and additional cost due to loss of business or the need for closure.

Source: Political Risk: Implications for the Insurance Industry in Canada
CIP Society (insuranceinstitute.ca)

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POLITICAL RISK

Drivers

- High cost of food, shelter, energy
- Rising economic inequality
- Failure to resolve social injustice issues
- Social media and capacity to mobilize

Source: Political Risk: Implications for the Insurance Industry in Canada
CIP Society (insuranceinstitute.ca)

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POLITICAL RISK

What can you do?

- Emergency action plan
- Threat analysis and security audits on a regular basis
- Staff training
- Ensure capacity for communication with staff
- Standard Security
- Understand what your insurance will and will not cover

Source: Political Risk: Implications for the Insurance Industry in Canada
CIP Society (insuranceinstitute.ca)

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SUMMARY

Risk in an uncertain environment

- We don’t know what lies ahead but we do know that risks will continue to overlap, climate change impacts are increasing and uncertainty in our political and economic environment seems to be the new normal.

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FINAL THOUGHTS

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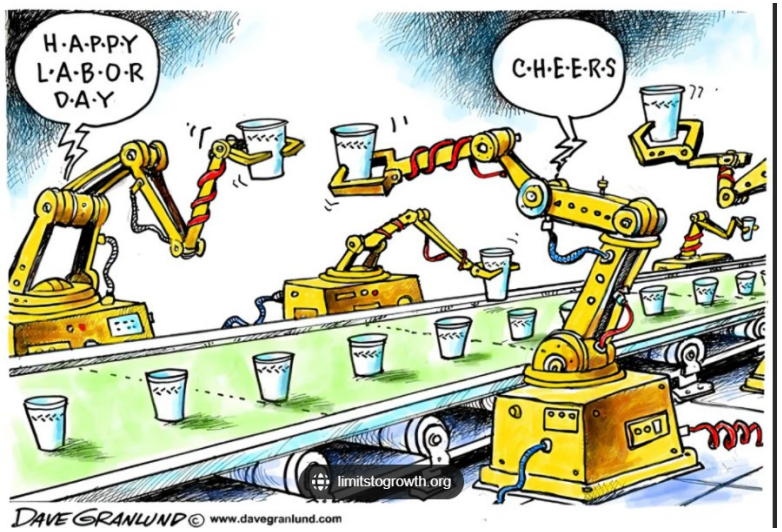
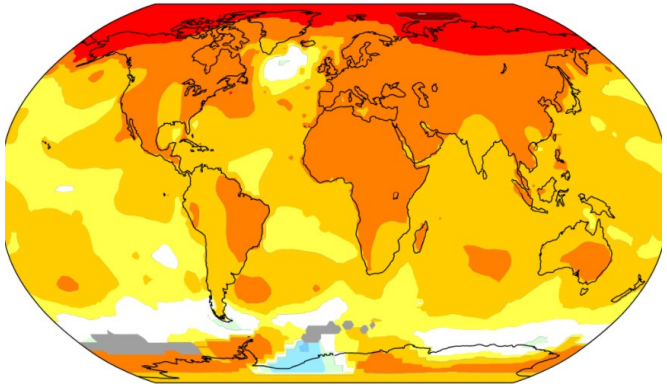
Final Thoughts – What's Next?

WELCOME TO THE AGE OF UNCERTAINTY!





QUESTIONS?

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