

# The urgent need to review and revise building values in light of significant increases in construction cost.

### What's Going On with Prices?

Over the past 15 or more months the cost of building materials has risen sharply across Canada in all regional sectors. As a result of these pressures, the replacement cost of buildings in all classes and types (i.e. Commercial, Residential, Industrial) have seen significant increases. This upward trend has seen a moderation in some areas recently, as the North American and Worldwide raw material production and manufacturing sectors return to more usual levels of productivity.

It's expected that the increased replacement cost of buildings will continue for the next 3 to 5 years as the production and manufacturing sectors as well as the supply chains all recover to pre COVID-19 pandemic levels of operation.

### What Does this Mean for the Insurance on my Building?

Insurance underwriters must account for these rising replacement costs that are driven, in part, by increased material and labour costs, when assessing Commercial, Residential, or Industrial building insurance coverages.

To confirm your insurance is not based on an inaccurate Replacement Value, InspekTech® or another replacement cost evaluation firm may have been hired to determine how much it would cost to replace all, or parts, of your building in the event of a claim.

Receiving a Replacement Value inspection is smart for both you and the insurance company you're dealing with. It's smart for you because you're protected against loss. It's smart for the insurance company because then they'll know the real dollar amount they will be on the hook for in the event of a claim.

### Examples of 3 Building Material Increases Affecting Insurance

When InspekTech® engages in replacement cost work we account minimally for the following building material increases that directly affect Replacement Value:

1. **Steel** > Many steel mills were forced into shut down, or reduce operational output, over the past 15 months. This supply reduction caused the relative demand and resultant cost of steel to rise dramatically from \$600-700/ton to over \$1,400/ton as of June 2021. As the stock of materials have dwindled, steel mills are advising that it will likely be the 2<sup>nd</sup> half of 2022 before production levels and utilization rates near normative levels. Adding to supply pressures, the US Government has recently announced a trillion-dollar spending allocation to infrastructure spending. If supply constraints match forecasts, we expect continued steel supply issues for the next 3 to 4 years provided no other variable constraints require forecasting adjustments.
2. **Drywall** > With plant closures and slowdowns, supply shortages have caused an upward trend in pricing from \$15 per 4' X 8" drywall panel in late 2019 to \$28 - \$35 per 4" X 8" panel as of May 2021.

Commercial builders have experienced an inability to obtain large amounts of 5/8" drywall (especially X type) due to the sub-components required in manufacturing being difficult to obtain. This has exerted further pressures on supply chains to completion and upward price stresses.

3. **Lumber** > The upward volatility of lumber prices has been widely reported in the media, particularly in Q4 of 2020 and throughout Q1 and most of Q2 2021, due to its almost sensational and meteoric cost increase story (240% increase, BMO). The cost of framing, structural timbers, and finishing material have all escalated to unprecedented cost levels. By way of example, an average 2x4 stud sold for \$375 per 1,000 board feet in 2019 whereas in early 2021 it sold for as much \$1,352 per 1,000 board feet. Forecasts in June 2021 appear to be signaling the beginning of a gradual thaw with lumber prices starting to moderate slightly (down about 11% from the peak). This downward curve is corroborated by BMO Capital Markets Benchmark Western Spruce-Pine-Fir (SPF) lumber forecast in April 2021 signaling lumber prices dropping in the second half of the year (by 2022 BMO expects lumber prices to be at more typical levels).

These 3 material item categories have been used only as representative examples, there being many more components that would follow a similar supply and price trajectory at the present time. These material increases have directly affected replacement costs. Even in the event of a minor or partial loss, the building limits in place may cause unforeseen impacts on an insureds coverage viability.

## Replacement Value: Independently Determined

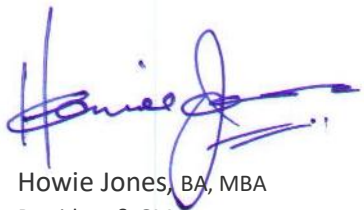
As an independent 3<sup>rd</sup> party, InspekTech® is paid to objectively report Replacement Value costing without interference. InspekTech® does not get involved in underwriting decisions, the final Replacement Value the insurance company decides upon, nor how insurance providers set their premium rates. Our role is to provide an unbiased and real world cost to replace any given building(s) at date under an insurance sq ft claims grid.

Our reporting is based on Field observations and office analysis incorporating detailed financial replacement data we acquire from CoreLogic®, an industry renowned costing leader. CoreLogic® represents another risk mitigation layer as they are also an independent 3<sup>rd</sup> party whose function, in part, is to collect claims cost data from many regions in Canada using a network of regional contractors to determine replacement costs and rates (typically costing updates are updated quarterly).

Such Field work and office analytics “clinically” and rigorously determine the real cost to replace the building you are insuring against potential future loss.

## Summary

An accurate Replacement Value on the building(s) you are insuring is one of the vital steps insurance companies of excellence use to determine underwriting claims sq ft costing. Using the wrong Replacement Value may result in an attractively lower premium, but it also means you may not be covered properly which places you at significant financial risk. By having an accurate Replacement Value in place, your insurance provider will have a concrete and independent basis to price your premiums fairly and accurately.



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