

Determining Total Insurable Value and Understanding Fluctuations

There are many practical ways to measure the value of a condominium property in Canada, some being more useful than others in specific circumstances. For insurance purposes, the value of a condominium asset is defined by its full replacement cost, known to appraisers as the Total Insurable Value. This total insurable value (TIV) is the single most important figure in determining the cost to fully replace the property in the event of a total loss and includes items such as the cost of materials, labour, bylaw and building code revisions, as well as changes to standard materials deemed no longer appropriate.

TIV EXPLAINED

Total insurable value is different than other common forms of property valuations such as Actual Market Value or the Income Capitalization Approach. Unlike appraising a property based on TIV, these alternative forms of valuation usually include additional considerations that would not affect the cost to construct a replicate of the property, such as the land value, which can impact the valuation drastically. The process of establishing an accurate and reliable TIV starts with a professional insurance appraisal from an experienced third party. An appraisal is the procedure of identifying, assessing, analysing, and reporting on the cost of an asset. For more information on this process, revert to our recent publication – *Insuring Your Property to Value*.

As mentioned, there are a multitude of components that must be evaluated: building structure and systems, all common assets, applicable bylaw and building codes, landscaping, and even the cost of demolition. Once all factors have been accurately accounted for, the accredited appraiser can



provide the condominium with the TIV, which enables the owners or manager to insure the property sufficiently. If appraised too high, the condominium corporation will be paying excess amounts of money in premiums for insurance. If appraised too low, the asset is at high risk in the unfortunate event of a total loss. This issue is more complex when considering the many external factors that can cause fluctuations of the TIV of an asset after its appraisal.

TIV - FACTORS AND CONSIDERATIONS



Structural, Material, and Labour considerations

Normac relies on local cost guides as well as in-house databases and algorithms to assist our professionals in determining the replacement cost for a given property. These guides, along with our collection of data, give us accurate estimations of current construction costs, which are comprised of structural, material, and labour costs within a given region. As economic conditions fluctuate, so do these variables. Changes to supply and demand, workforce composition, even international trade can all contribute to a rapid, profound TIV fluctuation.

Location

While the TIV has nothing to do with the cost of the land or market value, location can have a substantial impact on the replacement cost. Many contractors charge more for their services in rural areas than in cities. As demand is typically lower in rural areas, transportation cost is factored into contractor pricing to send material and labour to these areas. Demolition is another significant contributor to the total replacement value. Demos in urban areas will cost more due to space limitations, traffic considerations, and permits that may be required.

Although many condo units in downtown apartments are smaller than what you would find elsewhere, smaller square footage does not necessarily entail small price per square foot. A small apartment still requires all the same amenities (plumbing, utilities, etc.). In larger units, those expenses are stretched across more space, thus the price per square foot can be lower.

Bylaw and Building Code, Building Practices

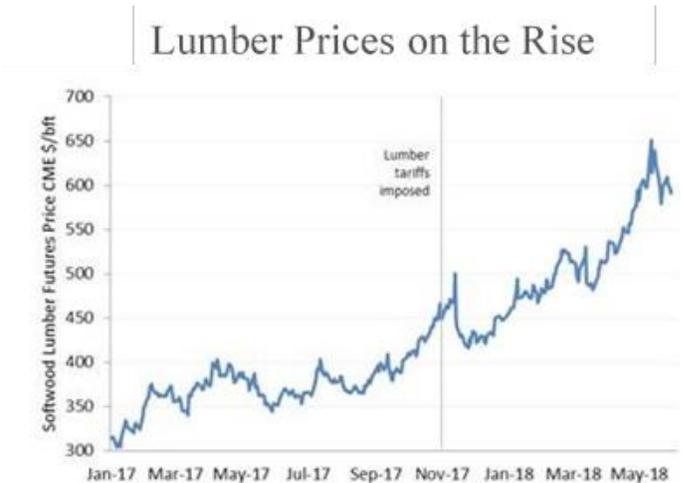
Bylaws and building codes are an important consideration when appraising condominium assets. Due to variations between municipalities and provinces, bylaws and building codes must be assessed in detail on a case-by-case basis as discrepancies between current standards and older structures can reflect large portions of a building's full replacement value. Experienced Normac appraisers have seen cases wherein new building codes and bylaws represented up to 30% of an asset's TIV. Examples include updates to fire protection standards, elevator codes, and parking requirements that would entail large amounts of capital to rebuild to current day requirements.

CURRENT FLUCTUATIONS EXPLAINED

The aggregate of all previous factors results in total insurable value fluctuations which, when shifting above the insured value of a condominium property, pose a serious concern for owners and managers. During Normac's 20-year involvement in industry, we have had vast amounts of experience in monitoring, analyzing, and sharing our understanding of these major fluctuations with our clients to keep them updated and protected. Currently, certain economic conditions have had a great impact on TIV, including:

Supply and Demand of Raw Materials

Supply and demand of materials such as steel, concrete, and softwood lumber has been transitioning through a period of major imbalance, causing extreme price increases¹. With an overall decline in steel production, global increases in demand for steel have drastically affected pricing. According to the World Steel Association, the cost of steel has been increasing since July 2017 and is expected to rise again by 8% through 2018². Canadian softwood lumber production has been stifled by recent, record-level forest fires, beetle infestations, and by climate change³. In 2017 alone, building and construction costs saw an increase of 10% - 40% due to BC's wildfires. This reduction in supply has led to sawmill closures in Canada, further contributing to record level pricing⁴.



Source: Chicago Mercantile Exchange

International Trade

Trade relations between Canada and the USA has further affected increases in material costs. NAFTA is a key issue with an impact on trade relations between both countries which, if it fails, may lead to a 5% overall decrease in the Canadian Dollar⁵. Tariffs on raw materials are another main consideration regarding fluctuating prices. It is expected that steel tariffs alone could raise condominium prices by \$10,000 CAD⁶.

Labour Market Shortages

Lack of skilled labour equates to higher charges by contractors and construction companies as wage increases are made to attract workers. As of December 2017, Canada was reported to have a national shortage of 38,000 construction jobs, third on the list of industries experiencing labour shortages⁷. By March of 2018, the construction industry had jumped to the number two spot⁸. This year, overall labor costs are expected to raise an additional 2-3%, influencing overall construction costs as well as expenses such as demolition and debris removal, both major components of a condominium's TIV.

As insurance appraisal experts, Normac is always aware of current events that may have bearing on a property's Total Insurable Value. Our professional team consistently monitors construction costs and we are attuned to industry developments and trends. As a result, we ensure that your insurance appraisals are accurate, and that your properties are protected and appropriately insured to full replacement value. For a no-obligation proposal, please [request a quote](#).



Sources

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