2025

CANADIAN CONSTRUCTION COST TRENDS

Regional Projections, Key Cost Insights,
and Industry Trends

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Overview

Canadian construction costs in 2024 continued to soften throughout the year, with moderate cost increases in Q3 of 4.0% for residential buildings and 3.9% for non-residential buildings.[1] A weak residential market led to an overall 3.1% decline YoY in construction outputs, but a rebound is expected in 2025 thanks to lower interest rates and major investments in transport, energy, healthcare and education.[2]

Major factors impacting the cost of construction this year include inflationary pressures, particularly on commodities such as lumber and steel, the ongoing skilled labour shortage, a looming trade war, and nationwide restoration efforts following a record setting year for natural catastrophes and insured losses.

The construction market is expecting a recovery in 2025 as recent Bank of Canada moves to lower interest rates should help to stimulate the economy.

Given the volatility of construction costs in years past, properties without a recent appraisal are urged to obtain one now to avoid any major gaps in insurance coverage and to protect their assets in any loss scenario.

When it comes to replacement cost valuations, we anticipate increases ranging from 1–9% in 2025 for properties that have current appraisals done by accredited firms.

2025 CONSTRUCTION COST INCREASES BY REGION

REGION	RESIDENTIAL	NON-RESIDENTIAL
British Columbia	3–9%	3–7%
Alberta	3–8%	3–7%
Saskatchewan	4–7%	4–7%
Manitoba	2–5%	2–4%
Ontario	1–6%	2–7%
Quebec	1–5%	2–5%
Nova Scotia	3–6%	1–4%

There may be deviations from the above table as certain properties could fall outside the expected range due to unique regional factors or specific circumstances. Recognizing these outliers is essential for a comprehensive understanding of construction cost increases.

CPI and Reconstruction Costs

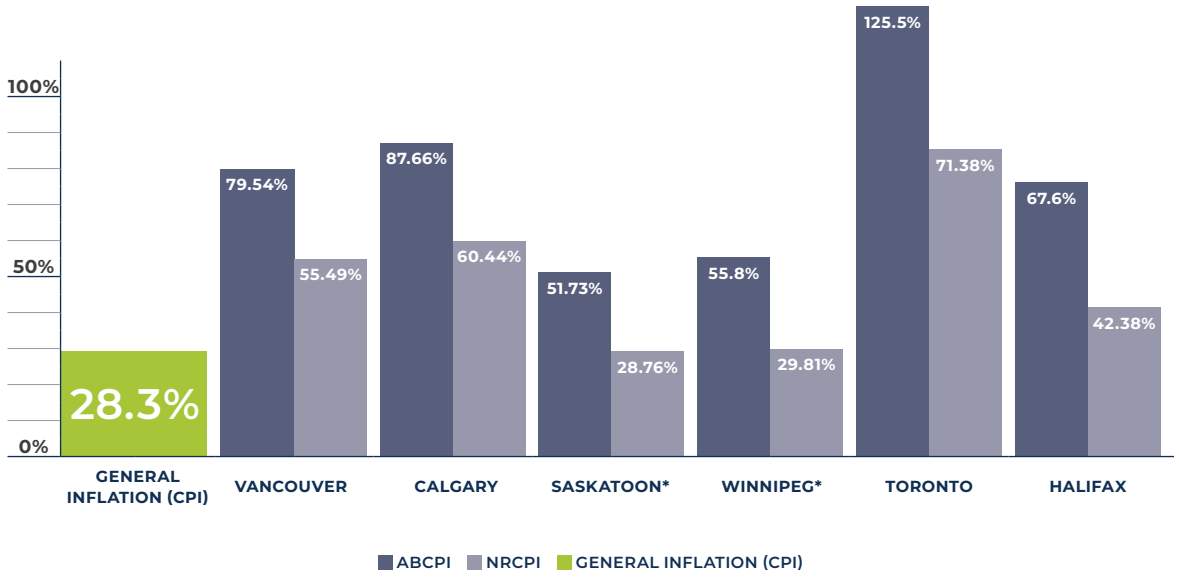
What is the Difference?

When discussing inflation, we often refer to the Consumer Price Index (CPI), which measures price changes for consumer goods like food, clothing, and household items. In 2024, these items saw a modest increase of about 2%. However, an insurance appraisal is based on reconstruction input costs, mainly materials and labour, and these often fluctuate more than general inflation (CPI).

Over the past decade, the Canadian Apartment Building Construction Price Index (ABCPI) increased 56% more than inflation, while the Non-Residential Construction Price Index (NRCPI) rose 22% above inflation. This shows that using general inflation rates to calculate replacement costs can be misleading. Property owners who rely only on these rates risk being underinsured and facing significant financial losses.

In the past 10 years, the rate of inflation rose by 28.3%.[3] In stark contrast, the Canadian ABCPI and the NRCPI surged by 99.98% and 55.9%, respectively.

RATE INCREASES FOR SIX CENSUS METROPOLITAN AREAS, 2014–2024



*Beginning with the fourth quarter 2016 reference period, the ABCPI and NRCPI observed population was expanded to include the additional census metropolitan areas Winnipeg and Saskatoon. Therefore, ABCPI and NRCPI data for these two areas is not available from the period of 2014–2017, and these rates only reflect the period from 2018–2024.

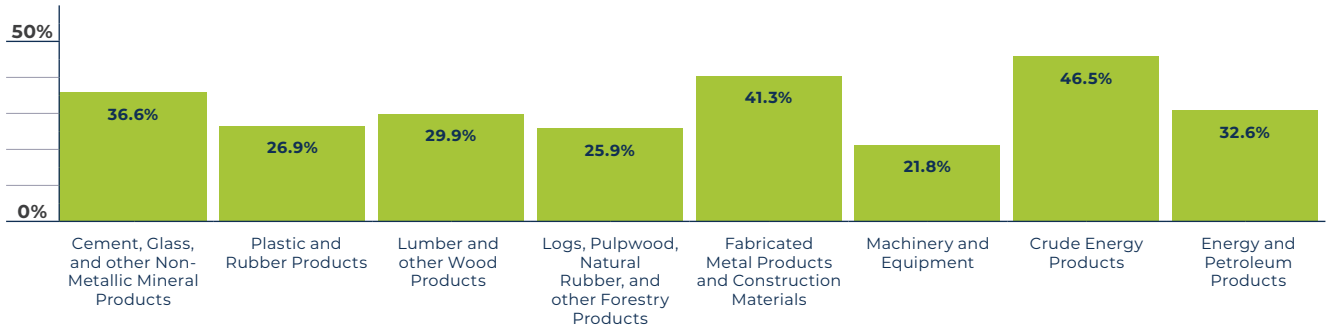
Key Factors

Material Costs

Though year-over-year material price increases have slowed, costs remain elevated compared to historic averages. The housing market has cooled over the past year, but Canada's significant housing deficit, and recent lower interest rates are helping to keep demand for construction materials high. Additionally, natural catastrophes and the possibility of new U.S. tariffs create the potential for volatility in material costs for 2025, particularly for lumber, steel and energy products.

- **Steel:** Global demand for steel was down in 2024 and prices are expected to remain stable through early 2025, with a gradual recovery of 1.2% in the second half of the year, heavily influenced by demand and production levels in China.[4]
- **Concrete:** Since February 2020, the prices of cement, glass, and other non-metallic materials have increased by 36.6% due to ongoing transportation challenges and material shortages. Despite some market stabilization, these materials are foundational in infrastructure, residential, and commercial projects. Demand will continue to drive concrete costs in 2025.
- **Machinery:** Machinery and equipment costs grew modestly in 2024, up 5% year-over-year, a trend expected to continue. The use of rental equipment, along with advances in material durability and automation, is driving efficiencies, enhancing precision and safety, and lowering operating costs, thereby offering potential cost savings to the sector.[5]
- **Lumber:** Lumber prices are expected to sit at a moderate rate of $500–$600 per thousand board feet, though recent trends show prices starting to creep up. While demand has softened, mill closures, wildfires, beetle infestation, and government intervention have all restricted supply and kept prices above pre-pandemic levels.[6]
- **Energy Products:** It is anticipated that crude oil prices will decline by 8% in 2025, driven by strong global production growth and oversupply from both OPEC+ and non-OPEC+ members alike.[7] Demand is below that of the pre-pandemic average and is contributing to increased global oil inventories, putting downward pressure on prices.
- **Canadian Dollar:** The Canadian dollar weakened throughout 2024 and is expected to remain low in 2025.[8] This depreciation will further impact the construction industry by increasing input costs, even as CPI moderates in other sectors. Key commodities such as energy, lumber, and aluminum—priced in U.S. dollars—will see price increases, regardless of domestic production, due to the weaker exchange rate.[9] A weaker Canadian dollar will not only disrupt the supply chain but also present significant challenges for construction companies in terms of accurate budgeting and timeline management.
- **Looming Tariffs: Supply Chain Disruption Ahead?** The new US Administration has threatened to implement a 25% tariff on Canadian imports. As of the time of publication, the administration has signed an order imposing a 25% tariff on all steel and aluminum imports from Canada, set to take effect on March 12, 2025. The repercussions of this policy, along with inevitable retaliatory tariffs by Canada, might greatly impact material prices, production, and introduce significant uncertainty for Canadian construction firms and developers.

INDUSTRIAL PRODUCT AND MATERIAL PRICE INCREASES SINCE FEB 2020[10-11]

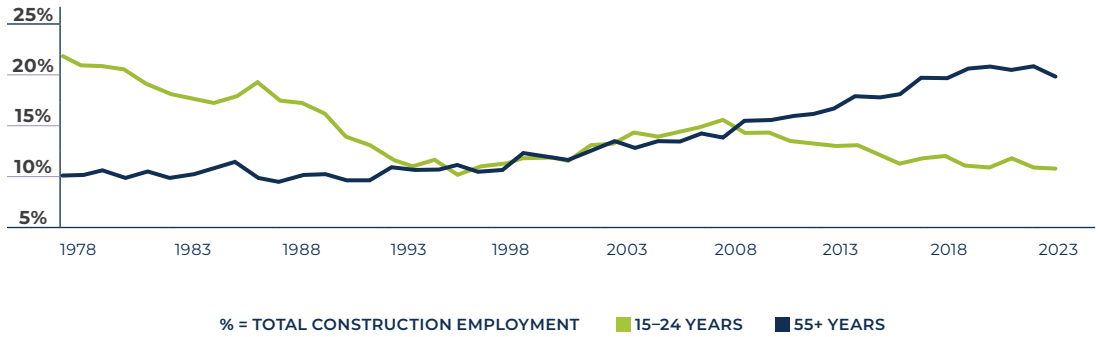


Labour Shortages and Wage Changes

The Canadian construction industry continues to face skilled labour shortages. With declining interest rates, pressure on an already tight market is expected in 2025. Currently, more than 30% of the current construction workforce is nearing retirement and a substantial percentage of construction jobs vacancies have been filled with immigrants. Efforts are being made to promote careers in construction, but it has not been enough to fill the gap[12], and recent government policies to limit immigration will exacerbate the problem. Without a long-term plan to address the shortage, builders will continue to struggle with longer timelines, decreased productivity, and high turnover rates.

Wage growth in the sector is expected to outpace all other industries, with projected base salary increases of 4.13% compared to the 3.45% national salary increase.[13] Provinces like BC and Alberta, experiencing a construction boom, will see the largest wage increases, while regions like Nova Scotia and Quebec will see more moderate growth. The industry has already seen a 20% wage increase since 2019[14] as builders aim to attract skilled trades workers to their projects. Labour makes up between 20–40% of the total project budget and is one of the biggest factors in pushing overall project costs up.[15]

CONSTRUCTION EMPLOYMENT BY AGE[16]



Natural Disasters

In 2024, insured damages from severe weather events in Canada surpassed $8 billion, according to Catastrophe Indices and Quantification Inc (CatIQ). This exceeds the previous record of $6 billion set in 2016 after the Fort McMurray wildfires, nearly triples the insured losses of 2023, and is 12 times the average annual loss of $701 million from 2001 to 2010.[17] The Insurance Bureau of Canada forecasts that climate-related damages could cost Canada up to $139 billion by 2030.[18]

The frequency and severity of weather events are driving up construction costs nationwide. After the 2023 BC wildfires, construction costs in high-risk areas surged by 10% to 30% due to rebuilding efforts and tight resources. Global losses, such as the January 2025 California wildfires, estimated at $35–$45 billion USD, also impact Canadian construction costs, particularly material prices, supply chains, and insurance premiums, which are expected to rise in late 2025 and into 2026.[19]

As climate risks grow, building codes and bylaws must evolve, yet current codes don't fully address these challenges. Craig Stewart, Vice-President of Climate Change and Federal Issues at the IBC, emphasizes the need for governments to proactively mitigate and adapt to risks. He suggests investing in flood defense infrastructure, preventing development on floodplains, promoting FireSmart initiatives in high-risk wildfire areas, and enforcing updated building codes to better protect homes and communities.[20]

2024 MAJOR LOSSES IN CANADA[21]

Insured Damage Estimate – $8.5 Billion+

Sector Insights

Residential Housing Starts

According to the Canada Mortgages and Housing Corp., Canada faces a significant housing demand, requiring 3.5 million additional units by 2030, beyond the 2.3 million already planned. Housing supply gaps are most pronounced in Ontario and BC, with Quebec and Alberta also needing more housing due to economic growth.[22]

Housing starts in Canada increased by 2% in 2024, driven by growth in Alberta, Quebec, and Atlantic Canada. Meanwhile, Ontario and BC saw declines, with Toronto, Vancouver, and Ottawa experiencing drops of 10% to 20%, primarily driven by weaker pre-construction condominium sales.[23] While interest rates eased in 2024 and are expected to drop further in 2025, major markets in BC and Ontario face slower recovery due to subdued population growth and a weaker economy. Alberta has seen a 29% increase in housing starts, with Edmonton and Calgary leading the charge. This surge is primarily driven by strong in-migration and a rise in permit applications. Both cities are projected to see 18,000–25,000 new units, potentially setting records.[24]

In September 2024, the Government of Canada expanded 30-year insured mortgages to all first-time homebuyers and new construction properties. This change aims to reduce monthly payments and stimulate new housing construction by improving financing options.[25] With interest rates declining in the second half of 2024 and further reductions anticipated in 2025, the residential construction market is poised to see a resurgence this year.

Commercial Real Estate

The non-residential sector has seen consecutive monthly increases in investments, reading a record-high $6.6 billion in November 2024, signifying strong current economic activity.[26] However, the total value of non-residential building permits dropped in October and November 2024 by 14%. The decrease was spread across the institutional, commercial, and industrial sectors, with Ontario's institutional component and Manitoba's industrial sector contributing most to the declines.[27] This suggests a potential slowdown in future construction activity for the sector.

Real estate development is highly cyclical, and while periods of high demand lead to new builds, factors like high vacancy rates can stall projects. The shift to remote work has drastically reduced demand for office space, resulting in near-zero office development, even in core markets like Vancouver and Toronto.[28]

Following a surge in industrial and apartment developments, developers are now scaling back. Concerns over oversupply in office, retail, and industrial markets have contributed to a slowdown in these sectors.[29] Rising vacancies, high construction costs, prolonged build times, elevated interest rates, and restrictive lending conditions—particularly for office space—will affect all areas of development.

Infrastructure & Energy Projects

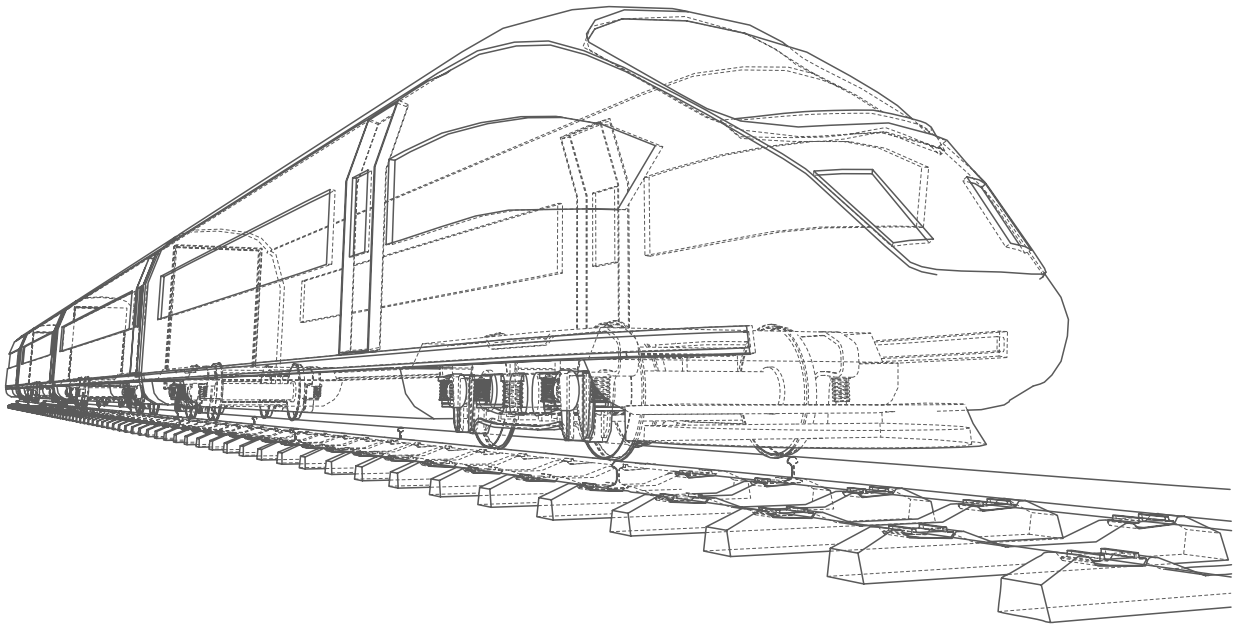
Multiple levels of government and private industry are investing in infrastructure projects across Canada, focusing on modernizing existing infrastructure while adding new projects to support the country's growth. In 2025 alone, $22 billion in new projects is planned, adding to the $300 billion already underway.[30]

These projects span various sectors, including transit, buildings, energy, and transportation. Large-scale government projects, which are spread across the country, are expected to grow, attracting significant attention from construction workers and professional firms. These multiyear projects require a large workforce, intensifying competition for residential and commercial construction labour.

Canada's Top 5 Biggest Infrastructure Projects[31]

1. **Hydroelectric:** Site C Clean Energy Project, Fort St. John, BC – $16 Billion
2. **Rail:** GO Expansion – On-Corridor Works, Greater Toronto and Hamilton Area, ON – $15.7 Billion
3. **Nuclear:** Bruce Power Refurbishment, Tiverton, ON – $13 Billion
4. **Nuclear:** Darlington Nuclear Refurbishment, Clarington, ON – $12.8 Billion
5. **LRT:** Eglinton Crosstown LRT, Toronto, ON – $12.6 Billion

See full list **here**.



Trends

Technological Advancements

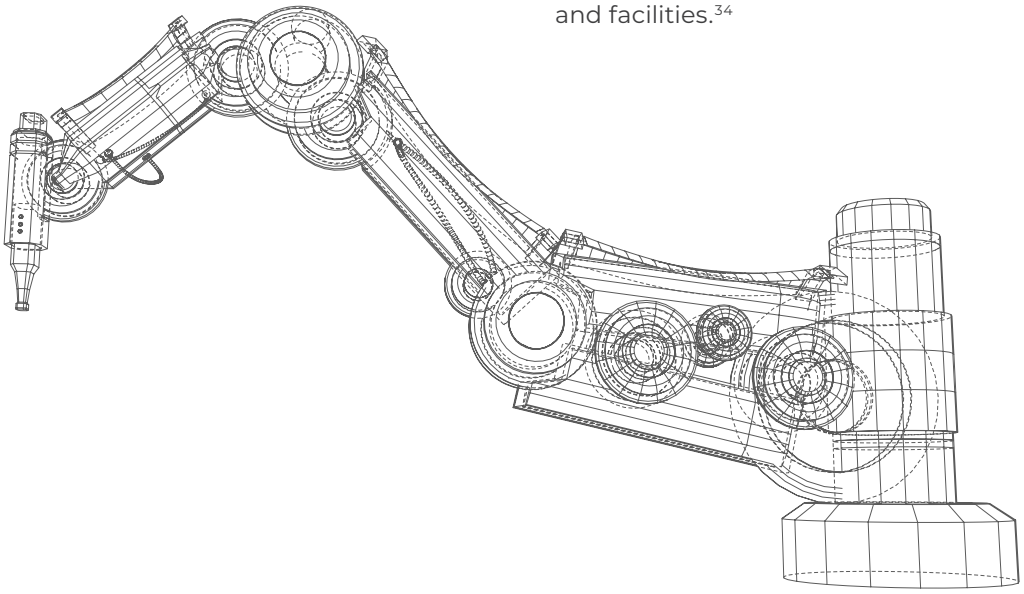
The construction industry is gradually adopting AI and robotics to boost efficiency and productivity. In response to the housing and labour crises, advanced technologies are being integrated into design and production to improve functionality, safety, and sustainability while reducing costs, timelines, and overall inefficiencies. By streamlining processes and decreasing reliance on labour, these technologies have the potential to significantly transform the industry.

Examples include robotic arms that read blueprints and perform tasks autonomously, eliminating the need for pre-programming. These systems are portable, reducing transportation costs and setup time. Additionally, automation in heavy construction machinery, supported by sensors and wireless connectivity, allows for precise material handling and placement, minimizing the need for human operators in hazardous environments.[32]

Building Information Modelling

Building Information Modeling (BIM) leverages advanced technology to create and manage building data throughout a project's lifecycle. Its growing adoption is transforming the construction industry by enhancing collaboration, accuracy, and efficiency. BIM generates detailed digital models of a building's design, structure, and systems, enabling seamless coordination among architects, engineers, and contractors.[33] This approach helps identify issues early, reducing errors, delays, and costs while supporting sustainable construction practices. By integrating technologies such as AI and Digital Twins—real-time digital replicas of physical assets—BIM further optimizes design, construction, and maintenance, improving project predictability and overall efficiency.

Increasing government mandates for BIM usage in public infrastructure projects are further encouraging its adoption. The Royal Alberta Museum utilized BIM for its facility in Edmonton, as does Defense Construction Canada for its military infrastructure and facilities.[34]



Sustainability

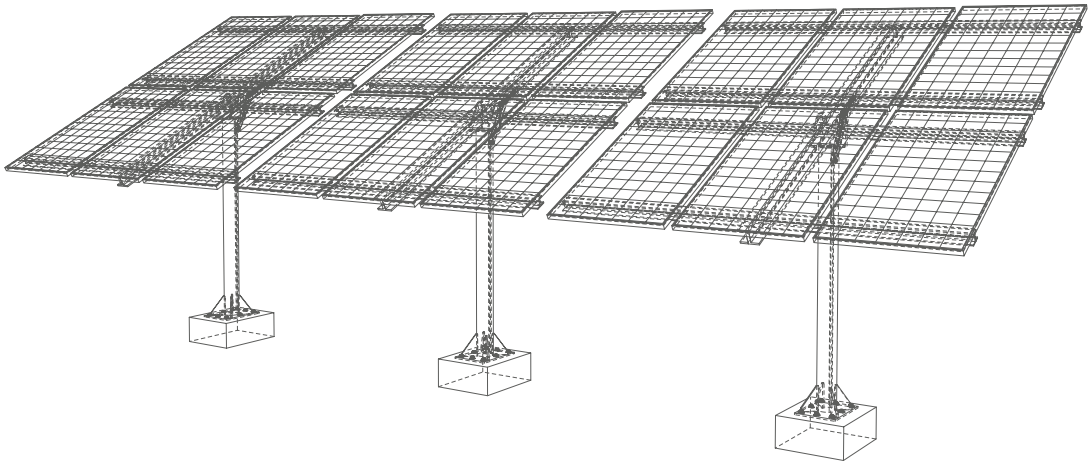
Sustainability has become a paramount focus in modern construction, driven by escalating environmental concerns and the necessity to mitigate climate change. The construction industry is increasingly adopting sustainable materials, enhanced insulation, and renewable energy sources like solar panels to reduce carbon emissions and meet the burgeoning demand for green buildings.[35]

A notable trend in this green movement is the use of recycled materials, including repurposed plastic waste, to conserve natural resources and minimize environmental impact. As the demand for eco-friendly buildings continues to rise, regulatory bodies have implemented stricter energy performance standards to ensure buildings are both energy-efficient and environmentally responsible. Green certifications, such as LEED (Leadership in Energy and Environmental Design), have become the gold standard for developers to assess, validate, and showcase the sustainability of their projects. These certifications not only provide a framework for sustainable construction practices but also offer market differentiation and demonstrate a commitment to environmental stewardship.

Prefabricated Construction and Modular Building Components

Prefabricated construction and modular building components are transforming the construction industry by offering significant cost savings and efficiency improvements. Prefabrication involves constructing building components off-site in a controlled environment, which reduces material waste, shortens construction timelines, and minimizes labour costs.[36]

Modular construction, a subset of prefabrication, allows for buildings to be assembled quickly on-site, further reducing project durations and costs. These methods also enhance quality control and sustainability by minimizing site disturbances and promoting the reuse of materials. As a result, prefabricated and modular construction are becoming increasingly popular, especially for projects requiring rapid completion and cost-effectiveness, and could be a viable solution to tackle Canada's housing crisis.



About Normac

When Normac was founded in 1998, our goal was to provide the highest quality insurance appraisals in the business. Over 25 years later, we have remained dedicated to our initial goal and have earned a reputation as the go-to company for replacement cost reports in Canada. In that time, we have completed over 100,000 reports and appraised more than $1 trillion in replacement costs.

Insurance brokers, property managers, and owners trust us to provide exceptional customer service and the most reliable insurance appraisals in the industry. Our established history is based on the experience of accredited professionals, responsiveness to client needs, and ongoing education and growth. Our team of experts rely on local and regional cost guides and our own proprietary costing database to determine accurate replacement cost values and produce detailed reports.

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Contact Us

Web: www.normac.ca

Email: info@normac.ca

Alberta
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(780) 935-8258

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Nova Scotia
(902) 999-8258

British Columbia
(604) 221-8258
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