

## *Under Construction*

Jackie Hamilton

### **Cost pressures will increase the number of construction project deferrals this year**

One of the soundest measures of major project development activity is the number of new construction starts in any given year.

Assessed against this metric, B.C. posted a very strong performance in 2005 and looks poised to repeat it in 2006.

That reflects a much more favourable development climate, one in which many projects are on the drawing board at any given time and fewer get derailed by regulatory hurdles or basic financial viability.

Projects are still being deferred, but for far different reasons than those that prevailed in the 1990s.

During 2005, there were construction starts on 127 major projects around the province, with a combined capital cost of nearly \$13 billion.

That figure represents 40 per cent of the capital cost of all projects currently tracked within the Major Projects Inventory - which is much higher than a single year's worth of activity typically accounts for.

Topping the projects' capital value list at \$1.7 billion is the Canada Line rapid transit connection between Vancouver, Richmond and the airport.

It's followed by the **Rise Resort** and residential development in Vernon at \$1 billion, Rossland's **Red Mountain Ski Resort** expansion at \$750 million and the Sea-to-Sky Highway upgrade at \$625 million.

Another dozen of the 2005 construction starts also broke the \$100 million level.

Out of 355 project proposals currently tracked in the Major Projects Inventory, 151 are classified as likely to reach the construction phase during 2006, with a combined capital value of \$11.2 billion.

The top three are:

- the **Vancouver Port Authority's** Roberts Bank expansion (\$1 billion);
- the Golden Ears Bridge (\$650 million), and;
- the Prince Rupert Port Expansion (\$500 million).

Other transportation and Olympics-related projects will round out the roster.

One reservation about the mix of major projects now coming online is that it's still skewed towards residential, resort and public-sector projects and includes relatively modest industrial development.

However, a correction could be on the horizon.

Significant numbers of new mine proposals and electricity-generation projects were included in the more than 200 projects added to the inventory during 2005.

The latter category will get another boost later this year from independent power producers once **BC Hydro** announces the results of its most recent call for proposals.

Projects added to the inventory last year will move into the construction phase primarily in 2007 and 2008 or beyond.

However, as mentioned, another figure that jumps out in a review of 2005 trends is project deferrals.

Projects classified as "on hold" now total 36. That's well below the high of 70 hit in September 2000, but also well above the low of 24 in March 2005.

At an average capital value of \$100 million, these projects represent a significant amount of deferred investment.

Escalating construction costs appear to be a significant contributing factor.

For example, proponents of the Bambu condominium development in downtown Victoria cited cost increases as the reason the project was being put on hold.

They chose to distribute refunds to investors, even though over 90 per cent of the building's units were sold.

This is already starting to become the story to watch in the months ahead.

Cost increases should not appreciably cut into construction starts this year, but they could result in a significant and perhaps even heightened level of deferrals.

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